



A Guide to ***Doing Business  
in Puerto Rico***



DEPARTMENT OF ECONOMIC DEVELOPMENT AND COMMERCE  
GOVERNMENT OF PUERTO RICO



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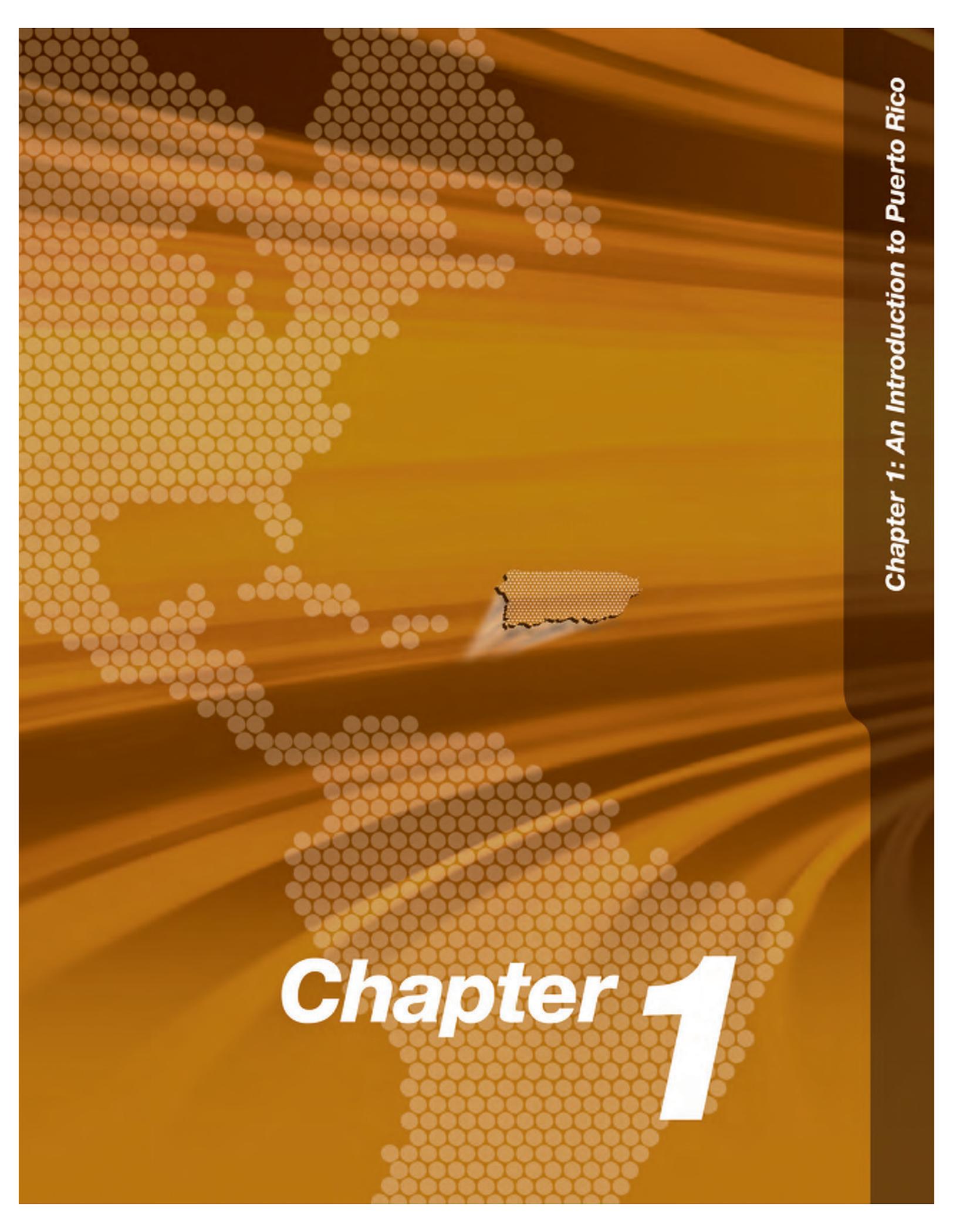
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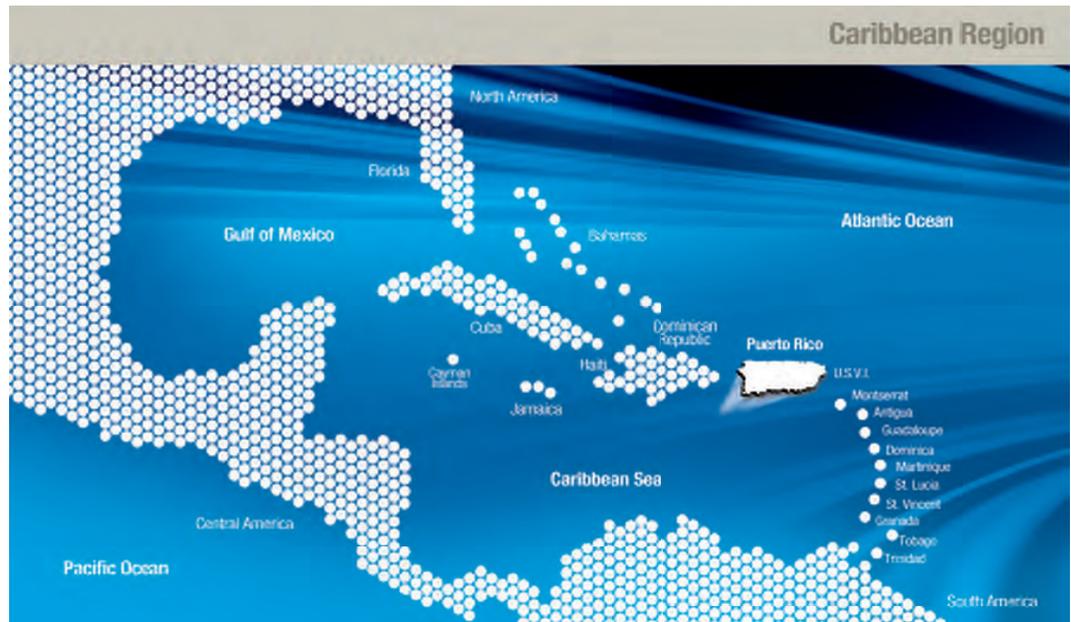


# *Chapter* **1**

**Chapter 1: An Introduction to Puerto Rico**



## Chapter 1: An Introduction to Puerto Rico



### 1. Historical Overview

For thousands of years various Amerindian groups inhabited what is today Puerto Rico. When Christopher Columbus arrived in 1493 and claimed the island for the Spanish Crown, it was dominated by a group of Arawak Indians known as Taínos, who called the island “Borikén” (*Borinquen* in Spanish). Spain controlled the island for most of the next four centuries until 1898, when it ceded Puerto Rico to the United States as part of the Treaty of Paris, which ended the Spanish-American War.

Puerto Ricans were granted U.S. citizenship in 1917 and the right to elect their own governor in 1947. Puerto Rico approved a constitution in 1952 that was ratified by the U.S. Congress and approved by President Truman the same year. To this day, Puerto Rico remains a territory of the United States.

### 2. Geography

Puerto Rico is the easternmost island of the Greater Antilles archipelago in the Caribbean Sea, located approximately 1,050 miles east-southeast of Miami. San Juan, Puerto Rico’s capital and principal city, lies on the island’s northern coast. A typical flight between San Juan and Miami takes about 2.5 hours.

Puerto Rico consists of the main island of Puerto Rico and various smaller islands, including the island municipalities of Vieques and Culebra. The main island is approximately 100 miles (160 km) by 35 miles (60 km) with an area of about 3,400 square miles (8,800 square kilometers). Puerto Rico comprises a mountainous interior surrounded by coastal plains in the north and south.



### 3. Government Systems

As a territory of the United States, Puerto Rico falls within the U.S. federal system and is subject to both U.S. federal and local law. Specifically, the U.S. Constitutional and most federal laws and regulations apply in Puerto Rico, and the island also has its own constitution, laws, and regulations that apply to the extent they are not contrary to federal law.

Puerto Rico’s local government, like those of the federal government and the states, includes an executive, a legislative and a judicial branch.

Although Puerto Ricans are citizens of the United States, U.S. citizens living in Puerto Rico do not have the right to vote in presidential elections. They have a non-voting representative—called a resident commissioner—to the U.S. House of Representatives but no representative to the Senate. Passports are not required for U.S. citizens traveling between Puerto Rico and the United States. International visitors must meet the entry requirements established by the United States.

### 4. Demographics

After four hundred years of Spanish rule and more than one hundred years as an American territory, Puerto Ricans ethnically and culturally blend Spanish, Taíno, African, and American influences. About 3.9 million people live in Puerto Rico. Natural-born residents are U.S. citizens. The map below highlights several of the island’s major cities, which have the following populations:

San Juan	424,951	Mayagüez	93,730
Ponce	180,376	Trujillo Alto	85,682
Caguas	142,984	Humacao	60,681





## 5. Language

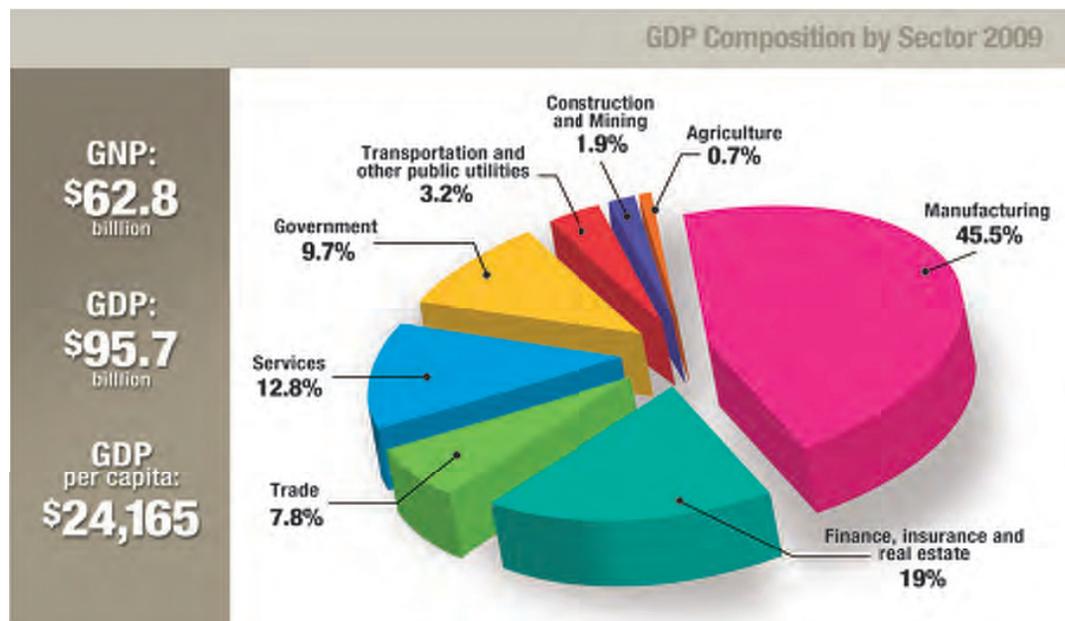
Puerto Rico's official languages are Spanish and English. While Spanish is spoken more commonly, business is frequently conducted in English. According to the Census Bureau's Puerto Rico Community Survey of 2007, an estimated 81.5% of the population knows at least conversational English by the age of five.

## 6. Currency

Puerto Rico's currency is the U.S. dollar.

## 7. Macroeconomic Indicators

Puerto Rico's economy is centered around high-value added services and manufacturing. In 2009, the gross domestic product was nearly \$95.7 billion, with a GDP per capita of over \$24,000. As of February 2010, the labor force was around 1.3 million strong, of which some 1.1 million are employed. Mean household income is over \$28,000.



Exports Value: \$60.8 billion f.o.b. (2009)

Exports Composition: commodities, chemicals, electronics, rum, beverage concentrates, medical equipment

Export Partners: US 71.6%, Germany 6.5%, Netherlands 4.4% and Belgium 3.8% (2009)

Imports Value: \$40.7 billion c.i.f. (2009)

Imports Composition: commodities, chemicals, machinery and equipment, food, petroleum products

Import Partners: US 46.9%, Ireland 20.1%, Singapore 3.9% and Japan 3.8% (2009)



## 8. Infrastructure

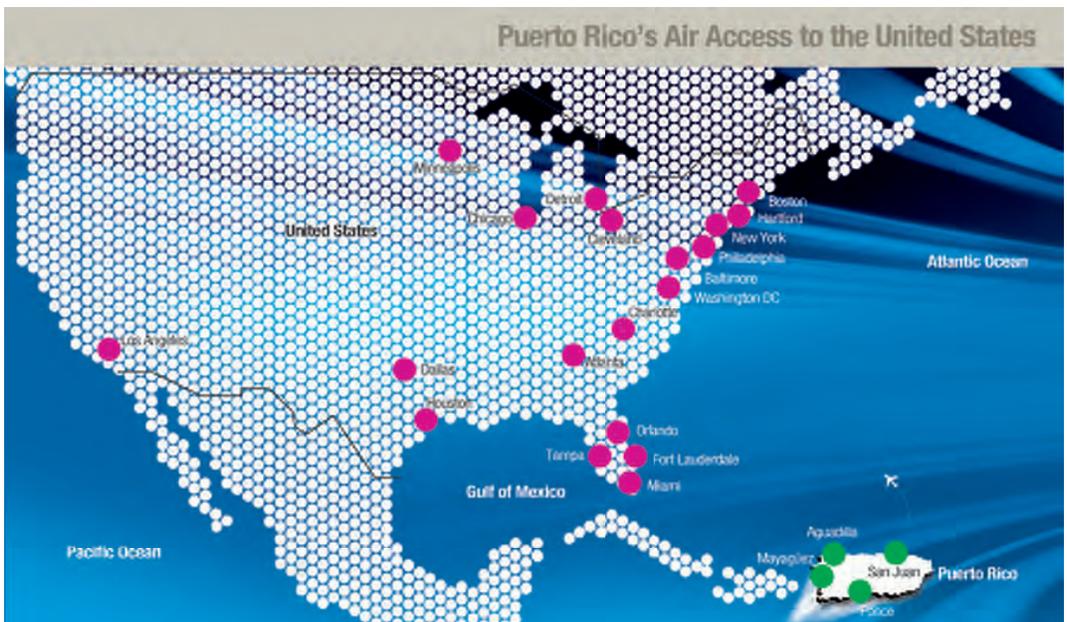
### A. Puerto Rico Ground Transportation

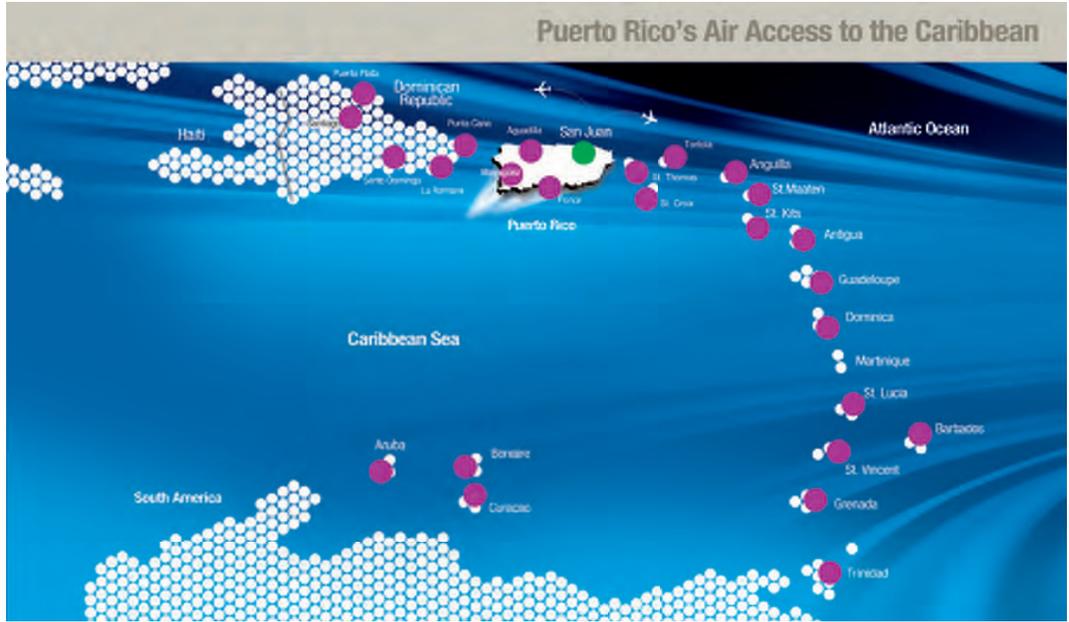
Puerto Rico's major cities are connected by a modern highway system, which, as of December 31, 2009, totaled approximately 4,629 miles and 11,947 miles of local streets and adjacent roads. The highway system comprises 387 miles of primary system highways, which are the more important interregional traffic routes and include PR-52, PR-22, PR-53, PR-66 and PR-20 toll highways, 252 miles of primary urban system highways, 959 miles of secondary system highways serving the need of intra-regional traffic, and 3,053 miles of tertiary highways and roads serving local, intra-regional traffic.



### B. Airports

Puerto Rico's air access is by far the best in the Caribbean. Three airports - Luis Muñoz Marín International airport in Carolina (SJU), Rafael Hernandez Airport in Aguadilla (BQN), and Mercedita Airport in Ponce (PSE) - have direct service to the U.S. mainland. Luis Muñoz Marín International Airport serves as the region's hub, providing service to more than 19 cities in the U.S. and many international destinations in the Caribbean, North America, South America, and Europe. The airport receives over 10 million passengers per year, making it the busiest airport in the Caribbean.







### C. Seaports

San Juan is the largest cruise ship port in the Eastern Caribbean. It is home port to several cruise ship companies and receives 1.2 million cruise ship passengers a year.

San Juan, Guayanilla and Mayagüez are the island's principal cargo ports. The port of Ponce is being redeveloped as the island's largest deepwater port and should become one of the Caribbean's principal transshipment facilities within the next few years.



### D. Power

The Puerto Rico Electric Power Authority (PREPA) provides electricity service throughout Puerto Rico. The cost of electric power varies depending on the type of industry, voltage level, energy consumption, load factor category, and fuel adjustments. Customers of PREPA that qualify under Puerto Rico's economic incentives law are entitled to a tax credit ranging from 3% to 10% of the value of their payments to PREPA. More information can be obtained by accessing PREPA's website.<sup>1</sup>

### E. Water

The Puerto Rico Aqueduct and Sewer Authority (PRASA) provides water and sewer service to most areas of the island. The cost of water depends on consumption and the diameter of the water meter. Most industrial facilities are connected to a 2-inch water meter. More information can be obtained by accessing PRASA's website.<sup>2</sup>

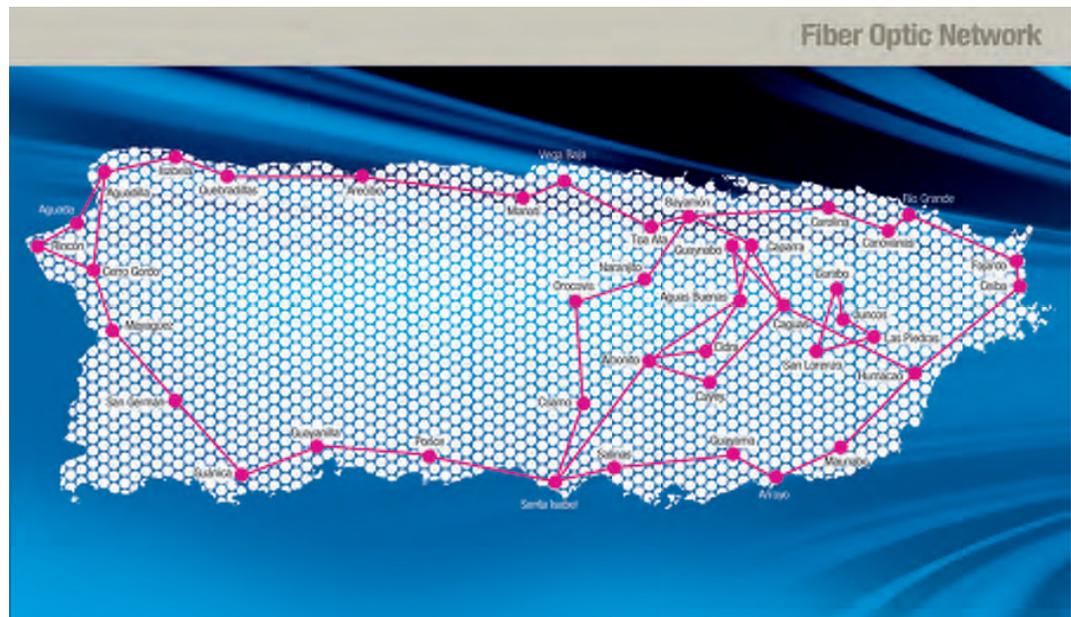
<sup>1</sup> <http://www.prepa.com/>

<sup>2</sup> [http://www.acueductospr.com/nuevometodo/tabla\\_cmb\\_comgobind\\_agua\\_alcan.htm](http://www.acueductospr.com/nuevometodo/tabla_cmb_comgobind_agua_alcan.htm)



## F. Communications

Puerto Rico has the necessary infrastructure for VoIP and broadband data connectivity to supply industry needs in landline service, wireless service, and Ethernet. Puerto Rico is connected to the mainland United States through the Puerto Rico undersea fiber-optic cable of the American Region Caribbean Optical-ring System. This connectivity provides broadband accessibility for Internet access.



## G. Convention Center

The Puerto Rico Convention Center is the largest of its kind in the Caribbean and Latin America. This state-of-the-art venue has a total space of 580,000 sq. ft. and the capacity to host 10,000 guests. The Convention Center operates under the administration of the Puerto Rico Convention Center District Authority, which also oversees the surrounding 113-acre district. Located in the heart of San Juan, the convention center district includes hotels and retail stores and will eventually incorporate residential and recreational areas as well. The project is structured as a public/private partnership.

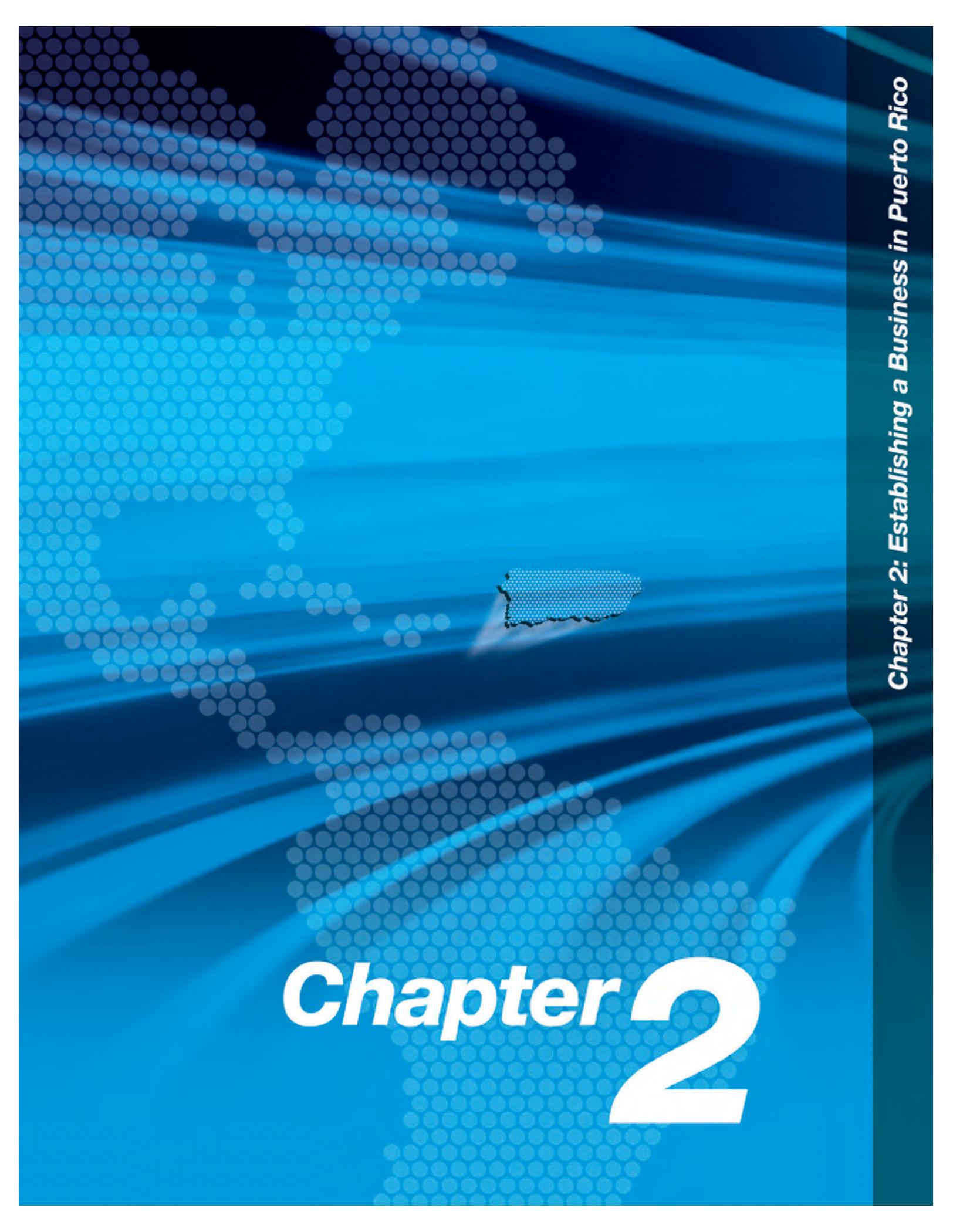


## **9. Education System**

There are 1,319 public and another 500 private primary and secondary schools in Puerto Rico. There are also over 50 institutions of higher learning, including universities, colleges, community colleges, and technical institutes. The largest public university in Puerto Rico is the multi-campus University of Puerto Rico. The largest private university systems on the island are the Sistema Universitario Ana G. Méndez, which operates the Universidad del Turabo, Metropolitan University, and Universidad del Este; the Pontifical Catholic University, Caribbean University, Carlos Albizu University, Sacred Heart University, Polytechnic University of Puerto Rico, and the multi-campus Interamerican University.

## **10. Science, Technology and Research**

The Puerto Rico Science, Technology and Research Trust was created in 2004 to act as a promotional, investment, and finance agent for activities that support research and science and technology development. As such, it promotes collaboration among the government, academic and manufacturing sectors, and it is charged with developing the infrastructure needed for maximizing the contribution of these sectors to Puerto Rico's economic development.



# *Chapter* **2**

**Chapter 2: Establishing a Business in Puerto Rico**



# Chapter 2

## Chapter 2: Establishing a Business in Puerto Rico

### 1. Business Entities

Puerto Rico recognizes a wide range of business forms, from basic sole proprietorships and general partnerships to special purpose corporate forms and limited liability companies. Investors thus have a variety of options for optimizing liability shield and tax treatment characteristics.

It should be noted that partnerships do not necessarily receive pass-through tax treatment and not all corporations necessarily face double taxation. Instead, both partnerships and corporations face taxation both at the partnership/corporate and partner/shareholder levels as the default rule, but both have the option of electing pass-through tax treatment if they meet certain criteria, as explained below.

#### A. Sole Proprietorship

A sole proprietorship is a business owned by a single individual who chooses not to form a partnership, corporation, or limited liability company. There are no special legal requirements for creating a sole proprietorship other than the normal requirements for starting a trade or business.<sup>3</sup> Sole proprietorships are not juridical entities and cannot enter into contracts or sue or be sued in their own name. Accordingly, a sole proprietorship provides no liability shield for its owner(s) and generally terminates upon the death of its owner(s). Likewise, it is not taxed separately, and all income is passed through to the owner(s). The owner is taxed at the appropriate individual rate.

A sole proprietorship may operate under a trade name. Trade names may be recorded at the Trade Name Registry for additional protection.

#### B. Partnerships

A partnership is an organization of two or more natural persons or juridical entities to carry on a business for profit pursuant to a partnership agreement. Partnership agreements (except those for limited liability partnerships and special partnerships) need not comply with any statutory formalities and need not be recorded in the Department of State. However, in order to own real property, a partnership must have its partnership agreement incorporated into a public deed prepared by a notary public.

Several types of partnerships are recognized in Puerto Rico, and partnerships may be organized under the Civil Code, the Commercial Code, or the Limited Liability Partnership Act. Generally, however, partnerships have some common characteristics. The civil code treats a partnership as a juridical entity separate from its owners (i.e., the partners). A partner acting within the apparent scope of his authority under the partnership agreement can bind the partnership. Thus, the partnership is liable to a third party for the authorized acts of its partners. Except for partners in limited liability partnerships and limited partners of limited partnerships and special partnerships, the liability of the individual partners is unlimited and joint with respect to losses, damages, disbursements and obligations.

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<sup>3</sup> As discussed in more detail below, this includes obtaining an Employer Identification Number (for those sole proprietorships with employees other than the owner), registering with the Registry of Businesses at the Puerto Rico Treasury Department, and registering with the Compulsory Business Registry at the Puerto Rico Trade Company.



As mentioned above, and unlike in most states, Puerto Rico partnerships do not automatically provide pass-through tax treatment. Rather, partnerships and their partners are subject to tax at the partnership level and again at the partner level to the extent the partnership makes any distributions. However, partnerships that meet certain criteria can elect pass through tax treatment pursuant to Subchapter K of the Puerto Rico Internal Revenue Code as described below.

#### **(1) Civil Code Partnership <sup>4</sup>**

A civil code partnership is a contract by which two or more persons bind themselves to contribute money, property, or industry to a common fund or enterprise, with the intention of dividing the profits among themselves. There is no special formal requirement for the creation of a civil partnership. Nevertheless, for a civil code partnership to acquire real property in Puerto Rico, it must utilize a deed form to create the partnership. The civil partnership need not register with any government agency.

A civil partnership is automatically dissolved by the death, civil interdiction, or insolvency of a partner (unless otherwise provided for in the partnership agreement), or when the business for which it was constituted ends. A civil partnership will not dissolve upon the withdrawal of a partner if the duration of the partnership is fixed and has not expired.

The partners in a civil partnership have a subsidiary obligation with respect to the debts of the civil partnership. The creditors of a civil partnership must first try to collect from the funds of the civil partnership. Only if such funds are insufficient to pay the debts owed to the creditors may the creditors move to collect from the partners. In such cases, the partners will be severally liable for the debts of the partnership.

#### **(2) Commercial Code Partnerships <sup>5</sup>**

Commercial partnerships - or partnerships formed under Commerce Code provisions - are defined as those in which two or more persons obligate themselves to join funds, properties and/or industry to obtain profits. This definition is almost identical to the definition of partnership under the Civil Code, but commercial partnerships must meet certain formal requirements, including being executed in deed form and registering with the Mercantile Registry (failure to record eliminates the protection of the partnership contract as to third-party claims). The recording fee in the Mercantile Registry is \$1.00 per \$1,000 of capital, up to \$10,000 and 50¢ per \$1,000 above \$10,000. The Mercantile Registry only acts as a registry and has no supervisory duties. There is a Mercantile Registry in each Property Registry, and partnerships must be recorded in the Registry located in the municipality where the principal office of the business is located.

There are two types of commercial partnerships: general partnerships and limited partnerships. A general partnership is one in which all the partners bind themselves, collectively and under a firm name, to share the same rights and obligations in such proportions as they may establish. The partners of a general partnership are personally and jointly liable for all the liabilities of the partnership.

A limited partnership is made up of managing and special partners. Managing partners run the affairs of the partnership and are jointly liable for the debts and obligations of the partnership. Special partners are passive investors and may not participate in the management of the partnership, and their liability for the debts and

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<sup>4</sup> Civil code partnerships are governed by 31 L.P.R.A. §§ 4311-4399.

<sup>5</sup> Commercial, or mercantile, partnerships are governed by 10 L.P.R.A. §§ 1341-1347.



obligations of the partnership is limited to their contribution to the partnership. However, a limited partnership cannot include the name of a special partner; if it does, the limited partner may be held jointly liable with the managing partners for the liabilities of the partnership.

### **(3) Limited Liability Partnerships <sup>6</sup>**

Two or more natural persons, including those rendering professional services, can form a limited liability partnership under the provisions of the Limited Liability Partnership Act.<sup>7</sup> They must register the limited liability partnership with the Department of State by filing a certified copy of the constituent deed accompanied by a \$100 fee. Registration is valid for one year and must be renewed annually by filing a renewal application and a \$110 revenue voucher. The name of the partnership must include the words “limited liability partnership” (*sociedad de responsabilidad limitada*) or “LLP”, “L.L.P.”, or “S.R.L.”

Generally, a partner in a limited liability partnership is not personally liable for the debts and obligations of the partnership or for negligent or unlawful acts of another partner or employee not supervised by the partner, provided he had no prior knowledge of such acts. However, the partner may be held personally liable for partnership debts and obligations that arise out of an error, omission, negligence, incompetence, or illegal act committed by that partner or in which that partner was involved, directly or through any person under his or her control or supervision or of which that partner had notice or knowledge.

In Puerto Rico, foreign limited liability partnerships are permitted, but permission from the Secretary of State is required to operate both a foreign LLP and domestic LLP.

### **(4) Partnership Tax Treatment and the Subchapter K Election (Special Partnerships) <sup>8</sup>**

As mentioned above, partnerships that meet certain criteria can elect to be taxed under Subchapter K of the P.R. Internal Revenue Code <sup>9</sup> and, as a result, receives pass-through tax treatment. That is, Special Partnerships do not generally pay any income taxes at the business-entity level, and their income or losses are divided among, and “passed through” to, their partners, who pay taxes on such distributions at their applicable rates.

To be eligible to make a Special Partnership election under the Puerto Rico Internal Revenue Code, a business must derive at least 70% of its gross income from sources within Puerto Rico during each taxable year, and at least 70% of such income must be from one of the following eligible activities:

- construction;
- land development;
- the substantial rehabilitation of buildings and structures;
- sale or rental of buildings or structures;
- manufacturing which generates substantial employment;
- tourism;
- agriculture;
- exportation of goods or services;
- the production of feature films; or
- the construction, operation or maintenance of public roads and adjoining facilities.

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<sup>6</sup> 10 L.P.R.A. §§ 1861-1867.

<sup>7</sup> 10 L.P.R.A. § 1861(b).

<sup>8</sup> 13 L.P.R.A. §§ 8630-8658.

<sup>9</sup> 13 L.P.R.A. § 8630.



To be considered as a special partnership, an election must be filed with the Puerto Rico Treasury Department. Generally, the corporation (or partnership) can make the election for any taxable year: (1) at any time during the preceding tax year, or (2) during the first 90 days of the tax year the election is to take effect.

## **C. Corporations**

### ***(1) Domestic Corporations*** <sup>10</sup>

Puerto Rico's General Corporation Law is based on Delaware's.<sup>11</sup> In general terms, a corporation is an entity separate and distinct from its shareholders, directors, and officers. It has the power to enter into contracts, hold property, and sue and be sued on its own name; it also has continuity of life and free transferability of ownership interests.

A typical corporation's structure consists of three main groups: directors, officers, and shareholders. In the most basic terms, the corporation is owned by its shareholders, the shareholders choose the directors, and the directors are charged with overseeing the management of the corporation, which is handled by the corporate officers. Directors must carry out their duties in good faith and without conflicts of interest; officers must perform reasonably and in good faith. The liability of directors and officers may be indemnified by the corporation. The liability of corporate shareholders for the acts of the corporation, except in certain cases, is limited to their investment in its stock.

Any person or juridical entity can form a corporation by filing articles of incorporation—signed by the incorporator(s) with the proposed corporation's name, street address, business purpose (can be stated as "any legitimate matter for which a corporation may be created"), incorporators' name and authorization, stock information, and directors' names and address—with the Corporate Division of the Department of State, along with a filing fee. De facto corporations are not contemplated under the Puerto Rico General Corporation Law. If shares have been issued, the articles of incorporation can be amended by the board of directors with shareholder approval. If no shares have been issued, the articles of incorporation can be amended by the directors (if they have been named) or the incorporators (if the directors have not been named).

The management of a corporation is typically carried out pursuant to by-laws, which may be adopted or amended at incorporation by the incorporator(s) or thereafter by the stockholders or, if permitted by the articles of incorporation, by the directors.

Puerto Rico corporations must maintain a designated principal office and agent in Puerto Rico for service of process.

Ownership of a corporation is effected through ownership of the corporation's capital stock, which may be issued in various classes with various rights and restrictions. Shares of corporate stock are personal property. Shareholders typically must hold meetings at least once per year. The law identifies certain corporate actions, and the articles of incorporation may specify others, that must be approved by the shareholders. Nonresidents of Puerto Rico and non-U.S. citizens may own stock and serve as directors and officers of a Puerto Rico corporation.

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<sup>10</sup> *General Corporations Act of 2009, Law No. 164.*

<sup>11</sup> *8 Del. C. §§ 101; 501; 601.*



Corporations must file an annual report on or before April 15. Annual reports must be signed by the corporation's president and treasurer, and in the case of a Puerto Rico corporation whose annual volume of business exceeds \$3,000,000, must be accompanied by the corporation's balance sheet at the close of the preceding fiscal year, audited by a certified public accountant licensed in Puerto Rico who cannot be a stockholder or employee of the corporation. Corporations incorporated outside Puerto Rico must accompany their annual report with an audited balance sheet regardless of annual volume of business. Each annual report must be accompanied by a fee of \$100.

Corporations can merge or consolidate with one another (in a merger, one of the corporations survives; in a consolidation, a new corporation is formed). In either event, the stockholders and creditors of the non-surviving corporations become stockholders and creditors, respectively, of the surviving corporation, and the surviving corporation takes on the rights and liabilities of the merged/consolidated corporations. Where permitted by the law of a foreign corporation's state of incorporation, Puerto Rico law allows for merger with a non-Puerto Rico corporation.

### **(2) Foreign Corporations <sup>12</sup>**

All corporations that are not organized under Puerto Rico laws are considered foreign corporations. Prior to conducting business in Puerto Rico, foreign corporations must register with the Puerto Rico Department of State, which will usually permit a foreign corporation to do business in Puerto Rico as a matter of course, so long as the proposed business is permitted and no other corporation is doing business under the same name.

A foreign corporation that fails to register to do business in Puerto Rico will not be allowed to initiate judicial proceedings in Puerto Rico until it is registered. Indeed, a court may suspend a judicial proceeding until a foreign corporation provides evidence that it is registered to do business in Puerto Rico. Courts can also order a foreign corporation to cease all business activities in Puerto Rico until it is duly registered to do business. Nonetheless, the mere fact that a foreign corporation is not authorized to do business in Puerto Rico will not affect the validity of its corporate actions in Puerto Rico or its right to defend itself in a proceeding in Puerto Rico.

The fees required by the State Department to process and issue the certificate of registration are US\$110. Legal process against the corporation may be served on its authorized resident agent, who must be either a natural or judicial person residing in Puerto Rico, but cannot be a stockholder, officer, or director of the corporation.

### **(3) Professional Corporations <sup>13</sup>**

A professional corporation is formed for the purpose of rendering the type of professional services that require a license from the Commonwealth of Puerto Rico. All shareholders must be individuals licensed by the Commonwealth to render the professional services offered by the corporation, and those services must be rendered through the corporation's officers, employees, and agents.

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<sup>12</sup> General Corporations Act of 2009, Law No. 164; Chapter XIII.

<sup>13</sup> General Corporations Act of 2009, Law No. 164; Chapter XVIII.



Officers, employees, and agents of a professional corporation are fully and personally liable for any negligent act or omission, unlawful act, or for any culpable conduct that arises from the rendering of professional services on behalf of the corporation, whether committed by such officer, employee, or agent or by any person under his or her direct supervision or control. In addition, the professional corporation is held jointly liable up to the aggregate value of its assets for the negligent or unlawful acts or for the culpable conduct of its officers, employees, and agents while offering professional services on behalf of the corporation. But shareholders who were not involved in the negligent or unlawful act or omission or culpable conduct are not personally liable for the damages caused by them. The professional corporation is not liable for the individual debts of its shareholders. Likewise, shareholders of the professional corporation are not liable for the liabilities of the professional corporation that are not related to negligent acts in the rendering of professional services.

The annual report of professional corporations must certify that its shareholders, directors, and officers are duly licensed, certified, and registered to render the professional services of the corporation in Puerto Rico. Non-Puerto Rico corporations may not qualify as professional corporations.

#### ***(4) Close Corporations <sup>14</sup>***

Close corporations provide structural flexibility to corporations owned by a relatively small number of shareholders that do not intend to go public within a short period of time. To qualify as a close corporation, the certificate of incorporation must include, among other clauses, provisions stating that:

- The number of shareholders may not exceed 75 persons;
- All of the issued stock of all classes must be subject to one or more of the following restrictions regarding the transfer of shares:
  - a right of first refusal;
  - an obligation on the part of the corporation, any shareholder or any third party to purchase the shares subject to a purchase-sale agreement;
  - the requirement of the consent of the corporation or the shareholder of any kind of restricted security, prior to the transfer of such security; and
  - the prohibition, for a reasonable purpose, on transferring the securities to designated persons or classes of persons.
- The corporation may not make any public offering that qualifies as such under the Federal Securities Act of 1933.

It is common to include a clause in the certificate of incorporation of close corporations authorizing the shareholders of the close corporation to manage the corporation's business. If the clause is included, it is not necessary for the shareholders to elect directors; rather, the shareholders may act as the board of directors. However, in such cases, the shareholders will be subject to all legal liabilities of the directors.

A close corporation may amend its certificate of incorporation to become a regular corporation by following the amendment procedures established for regular corporations; conversely, a regular corporation can amend its certificate of incorporation to become a close corporation.

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<sup>14</sup> *General Corporations Act of 2009, Law No. 164; Chapter XIV.*



### **(5) Non-Profit Organizations**

Puerto Rico's General Corporation Law provides for the organization of non-profit corporations. The certificate of incorporation must clearly state that the corporation is organized for nonprofit purposes and is not authorized to issue stock.

Instead of shareholders, a nonprofit corporation has members who are not personally liable for the debts of the corporation, except by reason of their own acts. However, members have a fiduciary responsibility toward the non-profit corporation similar to that of a director in a regular corporation.

Also, the members of a non-profit corporation may elect a governing body (typically called a Board of Directors) that has the powers and responsibilities of a board of directors of a regular corporation.

Non-profit corporations are required to file their annual report with the Corporation Division of the Puerto Rico Department of State, but they pay lower fees of only \$10, or, in the case of non-profit religious, fraternal, charitable, or educational corporations, no filing fee is required.

### **(6) Corporation Tax Treatment and the Subchapter N Election (Corporations of Individuals) <sup>15</sup>**

Like partnerships, corporations typically face taxation at both the corporate and shareholder levels. However, a corporation that meets certain criteria can elect to be taxed under Subchapter N of the P.R. Code as a corporation of individuals.<sup>16</sup> In general, an N corporation does not pay any income taxes at the corporate level, and the corporation's income and losses are passed through to its shareholders. This pass-through tax treatment is available, however, only if the shareholders consent to the corporation's election and the corporation meets a number of criteria. Specifically, the stock of a corporation of individuals may be owned only by individuals who are citizens or resident aliens of Puerto Rico, estates, and certain trusts. Moreover, the corporation must:

- be an eligible domestic corporation (including a U.S. entity that engages in trade or business only in Puerto Rico), but not an insurance company, a registered investment company, a special corporation owned by employees, a corporation exempt under any tax incentives or similar acts (except under the Puerto Rico Tourism Development Act of 1993), a financial institution, or a corporation licensed as a capital investment fund,
- not have more than 75 eligible shareholders;
- have only one class of stock outstanding.

All of these requirements must be met when the election is made and at all times thereafter. Failure at any time to qualify as a corporation of individuals terminates the election, and as of the date of termination, the corporation is taxed as a regular corporation.

The election to be considered as a corporation of individuals must be made by filing a Subchapter N Election with the Puerto Rico Treasury Department. Generally the corporation can make the election for any taxable year: (1) at any time during the preceding tax year, or (2) at any time before the 15th day of the fourth month of the tax year, if filed during the tax year the election is to take effect.

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<sup>15</sup> 13 L.P.R.A. §§ 8680-8689.

<sup>16</sup> 13 L.P.R.A. § 8680(1).



## **D. Limited Liability Company <sup>17</sup>**

Limited Liability Companies are more flexible operationally than corporations but can still provide legal protection for their managers and members. To form an LLC, one or more persons must file a LLC Certificate of Formation with the Puerto Rico Department of State, along with a fee of \$100.00. A foreign LLC may register in Puerto Rico by petition signed by an authorized person following the procedures specified in the General Corporation Act; once registered, it shall have some powers as a domestic LLC, provided that its internal affairs and the liability of its managers and members shall continue to be governed by laws of the jurisdiction where the LLC is organized. LLCs may engage in any lawful activity but must maintain a registered office and resident agent for service of process in Puerto Rico.

The management of an LLC is typically governed by an LLC agreement that sets forth (1) the respective duties of the LLC and its managers and members to each other, (2) the LLC's management structure, (3) the rights of the managers and members and (4) their respective share of interest in the LLC profits and losses. This agreement need not be registered.

Unless otherwise provided in the LLC agreement, managers and members of an LLC cannot be held personally liable for the LLC's obligations solely by reason of being a manager or member. They may rely in good faith on the LLC's records and upon information presented by other managers, members, officers, committees, employees, or anyone else with respect to whom such reliance is reasonable.

Like partnerships and corporations, LLCs are generally taxed at both the business entity and shareholder levels. But also like partnerships and corporation, LLCs can file for pass-through tax treatment under either sub-chapter K <sup>18</sup> or sub-chapter N <sup>19</sup> of the Puerto Rico Internal Revenue Code.

Limited liability companies can be merged, consolidated, dissolved, and/or wound up by the processes set forth for corporations under Puerto Rico's General Corporation Law.

## **E. Business Trusts <sup>20</sup>**

The Puerto Rico Civil Code essentially incorporates the common law of trusts while attempting to harmonize common law and civil law concepts. The Civil Code defines trusts as "an irrevocable mandate whereby certain property is transferred to a person, named the trustee, in order that he may dispose of it as directed by the party who transfers the property, named constituent, for his own benefit or for the benefit of a third party, named the beneficiary." The Puerto Rico Civil Code trust provisions do not establish the extent of the liability of a trust, if any, in relation to the debts of its beneficiaries; common law rules would likely be applied to determine such liability.

## **F. Joint Ventures**

A joint venture is formed between two or more parties who agree to undertake economic activity together and share in the revenues, expenses, and control of the enterprise. The venture can be for one specific project only, or a continuing business relationship. For tax purposes, it is treated as a partnership.

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<sup>17</sup> General Corporations Act of 2009, Law No. 164; Chapter XIX-XX.

<sup>18</sup> 13 L.P.R.A. §§ 8630-8658.

<sup>19</sup> 13 L.P.R.A. §§ 8680-8689.

<sup>20</sup> 7 L.P.R.A. §§ 301-503.



## **G. Cooperatives** <sup>21</sup>

A cooperative is a not-for-profit entity founded by a group of private juridical persons with a common social interest. The cooperative will embody the members' solidarity and efforts to carry out socioeconomic activities to fulfill individual and collective needs.<sup>22</sup> Generally, cooperatives must be formed by a minimum of eight persons (except workers cooperatives which need only five) domiciled in Puerto Rico; they are formed by filing articles of incorporation, bylaws, a feasibility study, and a revenue voucher with the Cooperative Development Administration of Puerto Rico. If an inspector determines that all requirements for the formation of a cooperative are met, he may then submit the documentation to the Department of State for registration. The cooperative is duly constituted when the Department of State registers the articles of incorporation and issues the corresponding certificate of registration.

A cooperative is managed by a board of directors, composed of no less than three and no more than eleven individuals.

Examples of the many types of cooperatives include: youth cooperatives, labor cooperatives, housing cooperatives, production credit cooperatives, consumer cooperatives, farm machinery cooperatives, and savings and credit cooperative unions. Some types of cooperatives have their own special requirements.

## **H. International Banking Entities (IBE)** <sup>23</sup>

The Puerto Rico International Banking Center Regulatory Act provides for the formation of International Banking Entities that are exempt from income, property, and municipal license taxes.<sup>24</sup> The formation and operation of an IBE requires a license from the Commissioner of Financial Institutions.<sup>25</sup>

An IBE may be formed by a juridical entity or a unit thereof (but not a natural person) organized under the laws of any country. It must have a minimum capitalization of \$5 million, of which at least \$250,000 must be fully paid at the time its license is issued, and it must maintain at least \$300,000 of unencumbered assets or acceptable financial securities. IBEs must maintain their principal office in Puerto Rico and retain a minimum of four full-time employees on the island. The name of an IBE must include the word "International," "Foreign," "Overseas" or another similar word that connotes the international nature of the activities of the IBE.

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<sup>21</sup> 5 L.P.R.A. §§ 4381-4667.

<sup>22</sup> 5 L.P.R.A. § 4387.

<sup>23</sup> 7 L.P.R.A. §§ 232-232x.

<sup>24</sup> 7 L.P.R.A. §§ 232u-232w.

<sup>25</sup> 7 L.P.R.A. §§ 232d-e.



## I. Insurance Companies <sup>26</sup>

Insurance Companies include any person engaged in the business of making contracts of insurance as defined in the Insurance Code of Puerto Rico. The insurance code and regulations issued by the Insurance Commissioner establish requirements regarding: (a) funds, (b) deposits <sup>27</sup>, (c) capital or surplus <sup>28</sup>, (d) investment in Puerto Rican securities <sup>29</sup>, among others.

In addition to domestic insurance companies, Puerto Rico's International Insurer and Reinsurer Act <sup>30</sup> (IIRA) provides for the creation of international insurers and reinsurers. To qualify as an international insurer or reinsurer under the IIRA, an insurance company must be approved by the Insurance Commissioner. Generally, an International Insurer is one that provides direct insurance only for risks outside of Puerto Rico, although it can provide surplus lines coverage and reinsurance for risks located in Puerto Rico.<sup>31</sup> International Insurers, Branches, and International Insurer Holding Companies are given attractive tax treatment:

Tax	Tax Rate <sup>32</sup>
Income Tax	0%
Branch Profit Tax	0%
Dividends / Other Distributions of Profits	0%
Distributions in Liquidation	0%
Municipal License Tax	0%
Property Tax	0%

In addition, they are not required to file tax returns, and the revenues they distribute to non-resident shareholders are also exempt from taxation.<sup>33</sup>

## J. Real Estate Investment Trusts <sup>34</sup>

A Real Estate Investment Trust (REIT) is a tax designation reserved for corporations investing in real property that reduces or eliminates corporate income taxes. The term "real property" includes, among other things: hospitals and related facilities; schools and/or universities; public and private housing; transportation facilities and private or public roads; office and residential buildings; buildings occupied by government agencies, departments or corporations of the Commonwealth of Puerto Rico; manufacturing buildings and related facilities; recreational centers; parking facilities; shopping facilities and centers; buildings purchased from the Government of Puerto Rico, its agencies and instrumentalities; and hotels.

<sup>26</sup> 26 L.P.R.A. §§ 101-4513.

<sup>27</sup> 26 L.P.R.A. § 801.

<sup>28</sup> 26 L.P.R.A. § 304(2).

<sup>29</sup> 26 L.P.R.A. §§ 648-662.

<sup>30</sup> 26 L.P.R.A. §§ 4301-4327.

<sup>31</sup> 26 L.P.R.A. § 4302(4). In addition to basic International Insurers, the IIRA provides for International Insurer Holding Companies, Branches (of foreign international insurers), and Segregated Asset Plans, structures that provide flexibility to international insurance companies seeking to operate in Puerto Rico.

<sup>32</sup> 26 L.P.R.A. § 4324.

<sup>33</sup> 26 L.P.R.A. § 4324(4).

<sup>34</sup> 13 L.P.R.A. §§ 8701-8725.



To qualify as a REIT under the Puerto Rico Code, an entity must:

- be organized as a corporation, partnership, trust, or association;
- have 50 or more shareholders or partners during at least 335 days over a 12-month period;
- be managed by one or more trustees or directors;
- evidence capital contributions with shares of transferable certificates;
- be treated for tax purposes as a Puerto Rico corporation (except for the provisions relating to REITs);
- not be qualified as a financial institution or insurance company;
- file an election to be treated as a REIT or have made such an election for a previous taxable year; and
- at the end of the first quarter of its first year as a REIT, have 50% or more of the total value of all the outstanding shares or participation certificates owned by more than five individuals.

A REIT needs also to comply with the following type-of-income and source-of-income requirements. Specifically, 95% or more of the gross income of the REIT must be derived from:

- dividends;
- interest;
- rents from real property;
- gain from the sale or other disposition of securities or real property (including interests in real property and interests in mortgages on real property) that is not inventory, amounts received or accrued as consideration for entering into agreements either to make loans secured by mortgages on real property or to purchase or lease real property; and
- gains from the sale or disposition of real property.

Moreover, 75% or more of the gross income of the REIT must be derived from:

- rents derived from real property located in Puerto Rico;
- interest on obligations secured by mortgages on real property or rights to real property located in Puerto Rico;
- gains from the sale or other disposition of real property that is not of the type of property that qualifies as inventory;
- dividends or other distributions derived from, and gains derived from, the sale or other disposition of shares of transferable stock, certificates, or participation in another REIT; and
- amounts received or accrued as consideration for entering into agreements to make loans secured by mortgages on real property and/or rights to real property located in Puerto Rico, and/or to buy or lease real property and/or rights to real property located in Puerto Rico.

REITs organized under the laws of the United States or a state of the United States (U.S. REIT) must meet the following requirements to be treated as a REIT under the P.R. Code:

- The U.S. REIT must have qualified as such under the U.S. Internal Revenue Code during the taxable year.
- The U.S. REIT must invest in real property located in Puerto Rico and constructed after June 30, 1995.
- The U.S. REIT must file with the Puerto Rico Treasury Department, not less than 30 days before the first taxable year in which it wishes to be regarded under the P.R. Code as an exempt REIT. A sworn statement with the information is required by the Department.



## **K. Registered Investment Company** <sup>35</sup>

Investment companies are engaged primarily in the business of investing, reinvesting, or trading in securities. They may be organized as corporations, partnerships, associations, joint stock companies, trusts, funds, or any organized group of persons, whether incorporated or not. It is also possible for a receiver, trustee in bankruptcy, or liquidating agent to qualify as an investment company. If certain requirements are met, an investment company may elect special tax treatment.

An issuer is an investment company if it:

- invests in securities with a value exceeding 90% of the total balance of its assets, excluding securities of the U.S. government, the Commonwealth of Puerto Rico, political subdivisions, organizations, agencies, or instrumentalities thereof, and cash items;
- invests not more than 25% of the value of its total assets in securities of another issuer, and owns no more than 75% of the outstanding securities of any other issuer;
- does not have fewer than 11 shareholders entitled to vote;
- does not have more than 50% of its voting securities controlled by less than six of the holders of such securities; and
- offers its securities to the general public if its outstanding securities are owned by more than 100 persons.

An investment company must register with the Office of the Commissioner of Financial Institutions before it can: offer for sale, sell, or deliver after sale, in the Commonwealth of Puerto Rico, any security or any interest in a security it issues; control an investment company that does any of the acts listed above; engage in any business in the Commonwealth of Puerto Rico; or control any company that is engaged in any business in the Commonwealth of Puerto Rico. To register, an investment company must:

- maintain its principal office in Puerto Rico;
- hold its annual stockholder meeting in Puerto Rico;
- have at least two directors who are residents of Puerto Rico;
- have a chairman of the board or president, or vice-president and secretary or assistant secretary, who are residents of Puerto Rico;
- invest at least 67% of its total assets, less cash, in Puerto Rico securities (as determined by the Commissioner of Financial Institutions), unless otherwise authorized; and
- have a net worth of at least \$100,000 or insure that after registration it will not issue any of its shares until firm agreements are made by not more than 25 persons to purchase and pay an aggregate net amount that, added to the net worth of the company, will equal at least \$100,000.

Registration requires the payment of a registration fee equal to 0.1% of the total dollar value of the capital stock issued or proposed to be issued.

## **L. Special Employee-Owned Corporation** <sup>36</sup>

The special employee-owned corporation (SEOC) is a hybrid between a regular corporation and a cooperative. SEOCs are owned and controlled by members who are similar to shareholders in a corporation. A SEOC may have regular members, special members, and corporate members, but there are stringent limitations on the roles of special and corporate members. Only natural persons who are employed by the SEOC in

<sup>35</sup> 10 L.P.R.A. §§ 661-683; 13 L.P.R.A. §§ 8659.

<sup>36</sup> General Corporation Act of 2009, Law No. 164; Chapter XVI.



an indefinite full- or part-time work relationship, and who render their services directly, may be admitted as regular members. A SEOC must have at least three regular members who are not related within the fourth degree of consanguinity and second degree of affinity. In addition, at least 80% of the workers of a SEOC must be regular members. The SEOC has up to four years to meet the 80% requirement. Each regular member is entitled to have one membership certificate and one vote regardless of the amount of capital contributed by such member to the SEOC. In any matter in which the vote of regular members is required, they have the right to cast no less than 55% of the total number of votes.

A SEOC is formed by filing a certificate of incorporation with the Corporation Division of the Puerto Rico Department of State. The initial capital of a SEOC is \$1,000. A SEOC may not issue common stock or any other type of voting stock. All the voting power of an SEOC is in its members. However, an SEOC may issue preferred stock (without voting power) and bonds like a regular corporation.

A SEOC is considered a for-profit corporation. The regular members of an SEOC are considered self-employed in relation to labor-protective legislation, except for purposes of workmen's compensation laws and the Puerto Rico Employment Security Act.

Membership certificates may not be transferred or encumbered in any way. However, if at any time a member ceases to be an employee of the SEOC or is no longer interested in being a member, he or she may request the corporation to repurchase the membership and reimburse him or her for the balance of the corresponding internal account.

Persons that may qualify as special members are:

- consumers that patronize SEOCs engaged in retail sales
- depositors in SEOCs engaged in financial activities;
- students in SEOCs engaged in educational activities; and
- unemployed farmers in SEOCs engaged in agricultural and agro-industrial activities.

### **M. Public-Private Partnerships <sup>37</sup>**

Law 29 of June 8, 2009 codified Puerto Rico's policy favoring the use of Public-Private Partnerships (PPPs)—contractual agreements between government agencies and a private or non-governmental entity or entities—as a means for achieving greater private sector participation in the development and financing of infrastructure and services, especially for priority projects, which include:

- landfills;
- water reservoirs;
- power plants that use alternative sources of energy or renewable sources of energy;
- transportation systems;
- health, security, education, correctional and rehabilitation facilities;
- low-income housing projects;
- facilities for sport, recreation, tourism and cultural activities;
- ground and wireless communication systems;
- high-technology information and mechanical systems; and
- any other kinds of activity, facility or service identified as a Priority Project through legislation.

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<sup>37</sup> Public-Private Partnership Act of 2009.



Law 29 creates a Public-Private Partnership Authority as a public corporation of the Commonwealth of Puerto Rico, attached to the Government Development Bank for Puerto Rico (GDB). The Authority is designated as the sole government entity authorized and responsible for implementing the public policy on partnerships and for determining the functions, services or facilities for which such partnerships are to be established. The Authority shall establish priorities in the development of projects, in order for partnership contracts to address infrastructure needs or services that hold priority for the Commonwealth. The Authority, with the support of GDB, shall conduct analysis on the desirability and convenience of the project as necessary to determine whether it is advisable to carry out the project and establish such partnership.<sup>38</sup>

Generally, contractors in a partnership established under the PPP Act receive special tax treatment. For example, such contracts will typically pay only a fixed income tax rate of ten percent (10%) over the net income derived from the operations provided in the partnership contract and receive exemptions from paying taxes on personal property. For more detailed rules on the tax treatment afforded to contractors in PPPs under Law 29, see Law 29 and the Puerto Rico Revenue Code.<sup>39</sup>

## **2. Basic Requirements & Procedures for Starting a Business**

### **A. Requesting and Registering an Employer Identification Number**

Except for sole proprietorships that do not employ anyone (other than the sole proprietor), every entity engaged in a trade or business in Puerto Rico must obtain a federal Employer Identification Number (EIN) from the U.S. Internal Revenue Service (IRS) by filing Form SS-4.<sup>40</sup> Upon obtaining an EIN, the entity must file with the P.R. Department of Treasury a Form SC-4809, a copy of the certificate of incorporation, and a copy of Form SS-4.<sup>41</sup>

### **B. Merchant's Registration Certificate <sup>42</sup>**

All merchants seeking to engage in a trade or business in Puerto Rico must register with the Registry of Businesses at the Puerto Rico Treasury Department at least 30 days prior to commencing business operations. The Certificate of Registration issued by the Treasury Department must be placed in a location at the trade or business that is visible to the general public. A merchant may not transfer its Certificate of Registration or Certificate of Exemption unless the transfer is previously approved by the Secretary of Treasury. Any merchant who acquires taxable items for resale or any manufacturing plant may request a certificate of exemption<sup>43</sup> of the sales and use tax. Every certificate of exemption is valid for three (3) years. The exemption certificate is important because every merchant who has been issued this certificate will not have to pay sale tax when he or she purchases the items listed in the certificate.

### **C. Compulsory Business Registry <sup>44</sup>**

All businesses operating in Puerto Rico must register with the Compulsory Business Registry by July 15 of each year. Registration requires certain statistical information and can be done on the Internet. Forms and information are available from the Puerto Rico Trade and Export Company.<sup>45</sup>

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<sup>38</sup> For additional information about Law 29, the Authority, and the procedures it uses to let PPP contracts, see the Authority's website at [http://www.p3.gov.pr/Index\\_eng.html](http://www.p3.gov.pr/Index_eng.html).

<sup>39</sup> 13 L.P.R.A. §§ 8401-8725.

<sup>40</sup> <http://www.irs.gov/businesses/small/article/0,,id=102767,00.html?portlet=4>.

<sup>41</sup> <http://www.irs.gov/pub/irs-pdf/fss4.pdf>.

<sup>42</sup> 13 L.P.R.A. § 9096.

<sup>44</sup> 10 L.P.R.A. §§ 2523-2525.

<sup>45</sup> [http://www.comercioyexportacion.com/comercioyexportacion/lowmenu/default2.asp?AFC\\_IDKEY=AFC\\_RC&AFC\\_MainMenu\\_Idkey=CEE\\_ComerLoc](http://www.comercioyexportacion.com/comercioyexportacion/lowmenu/default2.asp?AFC_IDKEY=AFC_RC&AFC_MainMenu_Idkey=CEE_ComerLoc).



## **D. Municipal License Taxes <sup>46</sup>**

Within 30 days of commencing operations, a business must provide written notice to the Director of Finance of each municipality in which it has commenced operations and request a provisional license for the quarter in which it commences operations.

## **E. Bidders Registry <sup>47</sup>**

Any person (natural or juridical) who wants to pursue business with any agency of the executive branch of the Commonwealth of Puerto Rico is required to register with the Bidders Registry, which is administered by the General Services Administration.<sup>48</sup> Among the requirements are the payment of an annual fee, and evidence of the payment of municipal and Commonwealth taxes.<sup>49</sup>

## **F. Financial and Accounting Records <sup>50</sup>**

As a general rule, a taxpayer must keep and maintain financial and accounting records sufficient to compute both net income under General Accepted Accounting Principles and taxable income under the P.R. Revenue Code. The General Corporation Act of 2009 provides that every foreign corporation authorized to do business in the Commonwealth shall keep and maintain in Puerto Rico those accounting books, documents and records (including inventory records) which are sufficient to:

- clearly establish gross income and deductions, credits and other details in connection with its operations in Puerto Rico that will be declared in its Puerto Rico tax returns, and
- clearly show the amount of its investments in Puerto Rico, the Puerto Rico property owned by the corporation, and the amount of capital spent in conducting business in Puerto Rico.

## **G. Audited Financial Statements <sup>51</sup>**

Every person engaged in a trade or business in Puerto Rico whose volume of business exceeds \$3,000,000<sup>52</sup> must file financial statements, certified by a certified public accountant (CPA) licensed in Puerto Rico, along with their income tax, property tax, and volume of business returns. All foreign corporations must also file a balance sheet of their Puerto Rico operations, certified by a CPA licensed in Puerto Rico, together with the Annual Corporation Report.

## **H. Internal Revenue Licenses <sup>53</sup>**

A license from the Puerto Rico Treasury Department may be required to carry out certain activities, including: selling cigarettes, gasoline, vehicles and parts and accessories of vehicles, jewelry, cement, arms and ammunitions; operating coin-operated machines; operating duty-free port stores; selling firearms and munitions; and operating public carrier businesses. Such licenses may not be transferred without the authorization of the Puerto Rico Secretary of Treasury. A manufacturer of articles whose sale requires a license is not required to have such license, provided the manufacturing operations are completely apart from any location in which an activity subject to such a license is conducted.

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<sup>46</sup> 21 L.P.R.A. § 651I.

<sup>47</sup> 3 L.P.R.A. § 931a.

<sup>48</sup> <http://www.gobierno.pr/ASG/RegistroUnicoLicitadores/>. For application see <http://asgapps.gobierno.pr/reglic/files/SolicitudIngreso.pdf>.

<sup>49</sup> See <http://asgapps.gobierno.pr/reglic/files/Requisitos.pdf>.

<sup>50</sup> General Corporations Act of 2009, Law No. 164, § 15.01(b).

<sup>51</sup> General Corporations Act of 2009, Law No. 164, § 15.01(a)(1).

<sup>52</sup> Special Partnerships and Corporations of Individuals must file audited financials with their income tax returns if their gross income is \$500,000 or more

<sup>53</sup> 13 L.P.R.A. §§ 9056-9067.



## I. Municipal Revenue Collection Center (CRIM)<sup>54</sup>

In Puerto Rico, property is classified for property tax purposes as real property (land, buildings and structures, and machinery permanently attached to the land or building) and personal property (practically all other property, including intangibles, machinery, money, cattle, and shares of stock). The Municipal Revenue Collection Center (CRIM) is responsible for making this classification. The CRIM is also responsible for the valuation and appraisal of all taxable property in Puerto Rico.

In addition, certain documents—including, for example, contracts that create, modify, transfer, or terminate a right or lien in relation to a real property right; any lease of real property for a term of six years or more that is to have effect as to third parties; powers of attorney; and last wills and testaments—are generally required to be executed in deed form in Puerto Rico and recorded in the Property Registry. In order to get a property registered in said Property Registry, the CRIM will certify that the real property is free of any lien due to taxes.

## J. Construction and Use Permits<sup>55</sup>

A business seeking to construct a new structure or modify an existing structure must obtain a construction permit. These are discussed in more detail in Chapter 6 below, but generally construction permits are obtained by the architect or engineer who has prepared and certified the blueprints for the project. They are acquired from the regional office of the Regulations and Permits Administration and, in the case of construction in an Autonomous Municipality, from the Municipality's Permit Office. To apply for a construction permit, the necessary documents should be filed in ARPE (Administración de Reglamentos y Permisos), which is the agency in charge for the issuance of such permits.<sup>56</sup>

A Use Permit is the authorization issued by ARPE for the occupation and use of certain lands, buildings, or structures. This permit is required when the construction (for which a construction permit was issued) is completed. The Use Permit will be issued only for the use identified in the certificate of construction; in case a special use permit is required, it will be issued separately. Use Permits are also acquired from the regional office of the Regulations and Permits Administration and, where the operation will be located in an Autonomous Municipality, the Municipality's Permit Office. The application for a use permit is completed through ARPE the same way as an application for a construction permit.<sup>57</sup> For the use permit to be issued, the business will need to have the Sanitary License and the Fire Department Inspection (discussed below).

## K. Sanitary License<sup>58</sup>

A Sanitary License is required for the operation of certain public establishments, including any type of prepared food vendor (fast-food, cafeteria, restaurants, bars, nightclubs, etc.), public pools, vending machines, and beauty salons. This license is issued by the Department of Health and can be requested from ARPE along with a Use Permit or directly from the Department of Health.

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<sup>54</sup> 21 L.P.R.A. §§ 5801-5854.

<sup>55</sup> Rule No. 6494, *Reglamento para la Certificación de Obras y Permisos* (2002).

[http://www.arpe.org/index.php?option=com\\_jdownloads&Itemid=105&task=finish&cid=25&catid=9&m=0](http://www.arpe.org/index.php?option=com_jdownloads&Itemid=105&task=finish&cid=25&catid=9&m=0)

<sup>56</sup> The application document is online at [http://www.arpe.org/index.php?option=com\\_content&view=article&id=133](http://www.arpe.org/index.php?option=com_content&view=article&id=133). Note, Puerto Rico recently enacted a law to revise various permitting processes. The new processes, however, are in the implementation process and will not be inaugurated until 2011. Permit Process Reform Act of 2009, Law No. 161 of December 1, 2009.

<sup>57</sup> The application document and process can be found online at [http://www.arpe.org/index.php?option=com\\_content&view=article&id=133](http://www.arpe.org/index.php?option=com_content&view=article&id=133).

<sup>58</sup> Rule No. 6090, *Reglamento General de Salud Ambiental* (2000).

<http://www.salud.gov.pr/Publicaciones/Reglamentos/Pages/ReglamentoGeneraldeSaludAmbiental.aspx>



#### **L. Fire Department Inspection <sup>59</sup>**

An inspection by the Fire Department is required for the construction of a new building or to obtain a Use Permit for the establishing of a public operation. The inspection can be requested from ARPE along with the application for the Use Permit. It must be requested annually. The fee for this inspection will vary according to the measurement of the premises to be inspected. A Fire Department inspection is also needed in order to obtain a permit for the operation of a special event.

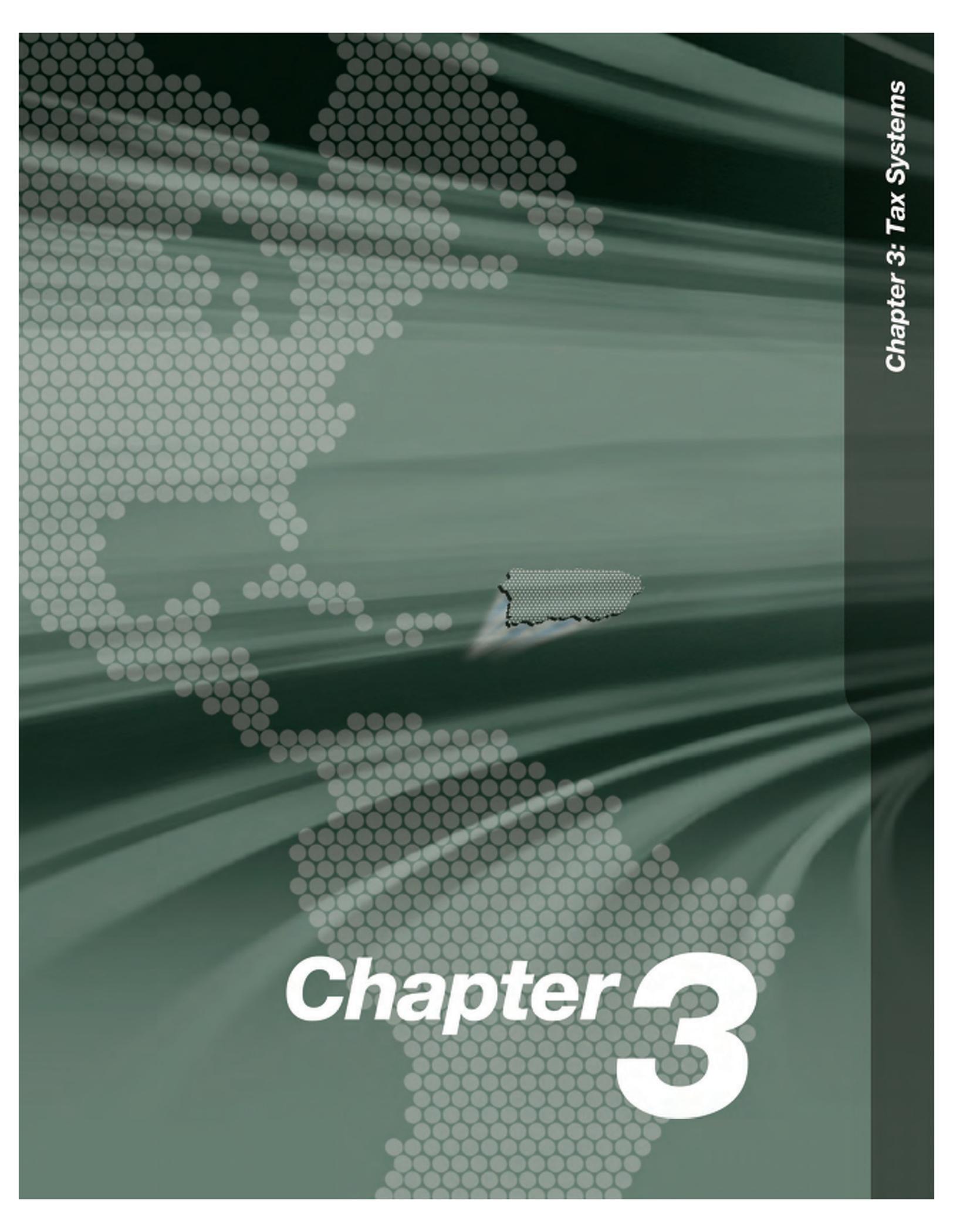
#### **M. Emergency Generator Operation Permit <sup>60</sup>**

If a business owns or operates an emergency power plant, it must have a construction and operation permit from the Environmental Quality Board (EQB). An emergency plan for the prevention of diesel spills may also be required.

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<sup>59</sup> 25 L.P.R.A. § 331h.

<sup>60</sup> 12 L.P.R.A. §§ 8001-8006.



**Chapter 3**



# Chapter 3

## Chapter 3: Tax Systems

### 1. The U.S. Tax System

#### A. Individuals Residing in Puerto Rico <sup>61</sup>

Like residents of the United States, residents of Puerto Rico are subject to federal income tax on their worldwide income. However, U.S. Code Section 933 permits a bona fide individual resident of Puerto Rico to exclude Puerto Rico source income from his gross income for U.S. tax purposes. The determination of bona fide residence in Puerto Rico for income tax purposes is established by the application of three tests established in U.S. Code Section 937: the (a) presence test, (b) tax home test, and (c) closer connection test. Of course, even bona fide residents of Puerto Rico will be subject to U.S. income tax on income from sources outside Puerto Rico.

The exclusion of gross income from Puerto Rico sources for U.S. income tax purposes does not apply to the salary received by U.S. government employees working in Puerto Rico, who must include federal income from work done in Puerto Rico as part of their gross income for both U.S. and Puerto Rico income tax purposes. However, income tax paid by U.S. government employees on their salary to the Puerto Rico Treasury Department may be credited against their U.S. income tax liability, subject to limitations.

#### B. Puerto Rico Corporations <sup>62</sup>

Puerto Rico corporations are treated as foreign corporations for U.S. income tax purposes. Thus, Puerto Rico corporations are subject to a 30% U.S. income tax withholding on, among certain other types of income: interest, rents, wages, premiums, annuities, compensation, remuneration, emoluments, and other fixed or determinable annual or periodical gains, profits, and income from sources within the United States. Dividends received by a Puerto Rico corporation from a U.S. corporation, however, and provided certain conditions are met, are subject to only a 10% U.S. income tax withholding instead of the 30% rate applicable to other foreign corporations. The conditions that must be met for the 10% rate to apply are:

- foreign persons must not own (directly or indirectly) 25% or more of the stock of the Puerto Rico corporation at any time during the taxable year in which the dividend is distributed;
- at least 65% of the gross income of the Puerto Rico corporation is effectively connected with the conduct of a trade or business in Puerto Rico or the United States for the three-year period ending with the close of the taxable year of the Puerto Rico corporation or for such part of said period that the corporation has been in existence; and
- no substantial part of the income of the Puerto Rico corporation is used (directly or indirectly) to satisfy obligations to persons who are not bona fide residents of Puerto Rico or the United States.

Notwithstanding the above, Puerto Rico corporations are subject to regular U.S. tax rates on their income effectively connected to a trade or business in the United States. When using a Puerto Rico corporation, care should be exercised as to the possible applicability of U.S. Internal Revenue Code provisions related to controlled foreign corporations, passive foreign investment companies, and foreign personal holding companies.

<sup>61</sup> 26 U.S.C. §§933, 937.

<sup>62</sup> 26 U.S.C. §1442. Specifics also provided in 26 C.F.R. §1.881-5t.



## C. United States Corporations

U.S. corporations are taxable in the United States on their worldwide income. Therefore, U.S. corporations that derive taxable income from Puerto Rico sources must include such income as part of their gross income for determining their U.S. income tax liability.

If a U.S. corporation decides to establish its operations in Puerto Rico through a Puerto Rico subsidiary, the latter will not constitute part of the consolidated group for purposes of the filing of U.S. income tax returns, since a P.R. corporation is considered a foreign corporation for U.S. purposes.

## 2. The Puerto Rico Tax System

The Internal Revenue Code of Puerto Rico is the main body of domestic statutory tax law. It covers income taxes, payroll taxes, gift taxes, estate taxes and more.

### A. Individual Income Taxes

#### *(1) In General*<sup>63</sup>

For 2009, the ordinary taxable income of individuals residing in Puerto Rico is taxed at progressive rates ranging from 7% to 33%. Other types of income are taxed at the following rates:

- **Long Term Capital Gains.** The applicable tax rate on net long-term capital gains is 10%. Capital gains and losses are long-term if the capital asset was held for more than six months prior to the realization of the gain or loss.
- **Certain Dividends and Partnership Distributions.** Dividends and partnership profit distributions received by an individual from a Puerto Rico corporation are subject to a 10% special tax.
- **Interest on Certain Obligations or Deposits with Banking Organizations.** Interest from deposits in interest-bearing accounts or in certificates of deposits of individuals, estates, and trusts in banking institutions may be subject to a special 17% tax, in lieu of regular tax (above), at the option of the taxpayer.

The statutory source of income rules discussed below in relation to businesses are generally applicable in determining the source of income of individuals as well. However, certain additional rules only apply in the case of individuals.

Salaried individuals having less than \$10,000 of adjusted gross income are typically exempt from Puerto Rico income tax. Specifically, a tax credit is provided in an amount equal to Puerto Rico tax liability for taxpayers who: (i) are single, the head of a household, or married filing a joint return; (ii) derive all of their income from salary; and (iii) have an adjusted gross income of \$10,000 or less.<sup>64</sup>

If the individual's net taxable income exceeds \$75,000, the benefit of the graduated rates is gradually eliminated (known as "gradual adjustment").

<sup>63</sup> 13 L.P.R.A. §§ 8411-8420.

<sup>64</sup> This provision is specifically contained in 13 L.P.R.A. § 8440(b).



There is also an alternative minimum tax (“AMT”) that may be applicable instead of the income tax determined in the manner described above. The alternative minimum tax rate is: (i) 10% if the net taxable income is \$75,000 or more but not in excess of \$125,000, (ii) 15% if the net taxable income is more than \$125,000 but not in excess of \$175,000, and (iii) 20% if the net taxable income is more than \$175,000.

Starting in 2009, the AMT on individuals includes most “exempt income” as income for AMT purposes (including income exempted by special statute). Limited exceptions include interest on obligations of the federal government, a state, territory, or political subdivisions thereof, the District of Columbia, or Puerto Rico or any instrumentality or political subdivision thereof. Also, the itemized deduction for interest on debt secured by the taxpayer’s principal residence or a second home is limited to 30% of the taxpayer’s adjusted gross income for purposes of the AMT computation. Additionally, a taxpayer’s share in the income or loss of a special partnership engaged in construction must be determined under the percentage-of-completion method.

### **(2) Non-Resident U.S. Citizens <sup>65</sup>**

A U.S. citizen who is not a resident of Puerto Rico but receives income from sources within Puerto Rico in the amount of \$1,300 or more (if the U.S. citizen is single or married but not living with his or her spouse), or in the amount of \$3,000 or more (if the U.S. citizen is married and living with his or her spouse at the end of the taxable year), is required to file a Puerto Rico income tax return unless the income tax on the income has been paid entirely by way of withholding.

In determining taxable income subject to Puerto Rico income tax, U.S. citizens not residing in Puerto Rico may only take deductions that are properly allocable to such income.

### **(3) Non-Resident Aliens <sup>66</sup>**

Non-resident aliens are subject to a 29% Puerto Rico income tax rate on gross income from interest, royalties, salaries, wages, annuities, compensation, remuneration, emoluments, and other fixed or determinable, annual or periodic income; on the distributive share of the income of a special partnership; and on net capital gains from sources within Puerto Rico. Dividend income from sources within Puerto Rico is generally subject to a 10% income tax rate. The distributable share of the income from a corporation of individuals is subject to a 33% income tax rate.

A non-resident alien may deduct losses not connected to a trade or business, but incurred in a transaction entered into for profit, but only if the profit from such a transaction would have been taxable.

Non-resident aliens that receive income from sources within Puerto Rico are required to file Puerto Rico income tax returns unless the tax was paid entirely by way of withholding. Non-resident aliens that are engaged in trade or business in Puerto Rico at any time during the taxable year are subject to Puerto Rico income tax at regular rates on their net income that is effectively connected to such trade or business in Puerto Rico. In determining the net income of a nonresident alien, deductions will be allowed to the extent that they are effectively connected with the conduct of a trade or business in Puerto Rico. The due date for the filing of such returns is the fifteenth day of the sixth month following the close of the taxable year.

<sup>65</sup> 13 L.P.R.A. § 8451.

<sup>66</sup> 13 L.P.R.A. §§ 8605-8612.



## **B. Business Taxes**

### ***(1) Sole Proprietorship***

A sole proprietorship is taxed on net income from the operation of its trade or business. The net income, generally, is determined using the rules discussed below for corporations. However, the P.R. Code establishes certain exceptions, such as the treatment of the net operating losses.<sup>67</sup> Specifically, the net operating losses suffered by a business operated by an individual as a sole proprietorship may not be used to reduce the net income derived from other business activities conducted by the individual. However, if a husband and wife each own a different principal trade or business, both principal trades or businesses will be treated as one principal trade or business for purposes of the net operating loss deduction.<sup>68</sup>

### ***(2) Corporate Income Tax (Corporations, Partnership, Limited Liabilities Company)***<sup>69</sup>

For income tax purposes, corporations, partnerships, limited liability companies, joint ventures, and business trusts, among others, are treated the same: there is no flow through of income or losses to the owners of such business entities, and instead taxes are levied both at the corporate/partnership level and again at the shareholder/partner level when actual distributions are made.

### ***(3) Taxation of Worldwide Income***

Puerto Rico corporations are taxed on their total net taxable income derived from any source whatsoever. Basically, the tax is determined by excluding certain items from gross income, excluding the items of income that are taxed at a different rate, reducing the remaining amount by the corresponding deductions, applying the corresponding corporate income tax rate to the amount remaining after deductions to determine the partial tax, applying the special tax rates to the special-tax-rate items to determine the tax on special items, adding the partial tax to the tax on special items to determine the total corporate income tax, and reducing the total corporate income tax by estimated taxes paid, withheld amounts, and other credits. The result is the amount of Puerto Rico corporate income tax due.

### ***(4) Source of Income Rules***<sup>70</sup>

#### ***(a) Personal Services***

Compensation paid for personal services performed in Puerto Rico is treated as derived from sources within Puerto Rico.

#### ***(b) Rents and Royalties***

Income from rents and royalties paid with respect to property located in Puerto Rico, and rents and royalties paid for the use of, or for the privilege of using, within Puerto Rico, intangibles such as patents, copyrights, secret processes, formulae, goodwill, trademarks, trade names, and franchises, are treated as derived from sources within Puerto Rico. Also treated as income derived from sources within Puerto Rico are payments made for the right to transmit, within Puerto Rico, television and radio programs, films, and other similar property.

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<sup>67</sup> 13.L.P.R.A. § 8512.

<sup>68</sup> 13.L.P.R.A. § 8524.

<sup>69</sup> 13.L.P.R.A. § 8697.

<sup>70</sup> 13.L.P.R.A. § 8523.



**(c) Sale of Real Property**

Gain from the sale of real property is sourced where the real property is located.

**(d) Sale of Personal Property**

Gain from the sale of personal property produced, in whole or part, by the taxpayer within Puerto Rico and sold outside Puerto Rico or produced, in whole or in part, by the taxpayer outside Puerto Rico and sold within Puerto Rico is treated as derived partly from sources within and partly from sources without Puerto Rico.

Gain derived from the sale within Puerto Rico of personal property purchased by the taxpayer outside Puerto Rico and from the sale of personal property purchased within Puerto Rico by the taxpayer and sold outside Puerto Rico is treated as derived entirely from sources within the country in which it was sold. If the personal property is produced and sold in Puerto Rico, the income from the sale will be sourced in Puerto Rico.

**(e) Distribution from Liquidation of a Puerto Rico Corporation**

Income derived from the total or partial liquidation of a Puerto Rico corporation or partnership is treated as derived from sources within Puerto Rico.

**(f) Distribution from the Liquidation of a Foreign Corporation**

Income derived from the partial or complete liquidation of a foreign corporation or partnership is treated as derived from sources within Puerto Rico if 80% or more of the corporation's or partnership's gross income for the three years preceding the liquidating distribution was effectively connected with the conduct of a trade or business in Puerto Rico. However, the income will be treated as from sources within Puerto Rico only in an amount that bears the same ratio to the total amount of the liquidating distribution as the gross income of the corporation or partnership effectively connected to the trade or business in Puerto Rico (excluding income considered in determining the branch profit tax, if applicable) bears to gross income from all sources.

**(g) Insurance Premiums**

Premiums paid with respect to a contract insuring risks located in Puerto Rico are treated as income derived from sources within Puerto Rico. However, premiums paid on life insurance contracts to a person not engaged in trade or business in Puerto Rico is not treated as income derived from sources within Puerto Rico.

**(5) Tax Accounting Period <sup>71</sup>**

A tax year generally consists of a period of 12 months. A corporation may select its tax accounting period on or before the due date for the filing of its first income tax return, without considering extensions of time to file. Once a taxable year is selected, that taxable year must continue until the Puerto Rico Department of Treasury approves a change or the law specifically permits otherwise. The tax accounting periods are: (a) the calendar year; (b) a 12-month fiscal year; and (c) 52 and 53 week taxable year.

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<sup>71</sup> 13 L.P.R.A. §§ 8441-8449.



## **(6) Tax Accounting Methods <sup>72</sup>**

### **(a) In General**

In general, the accounting method used by a corporation to determine its net income for regular business purposes must be used to determine net taxable income for tax purposes. However, the accounting method used by a corporation for tax purposes must be one that clearly reflects income and expenses.

The cash-receipt-and-disbursement method, the accrual method, hybrid methods, the installment method, the percentage-of-completion method, and the completed-contract method are among the accounting methods allowed for Puerto Rico income tax purposes.

### **(b) Inventories**

The method of inventory used for tax purposes must conform to the best accounting practice in the corresponding trade or business. The term "best accounting practice," as used in the P.R. Code, is generally the same as "generally accepted accounting principles." In certain cases, however, generally accepted accounting principles may conflict with the clear reflection of income requirement. If such a conflict does occur, the clear reflection of income should prevail.

The most common methods that may be used to identify inventory are: (a) the specific identification method; (b) the first in first out method (FIFO); (c) the last in first out method (LIFO); and (d) the weighted-average cost method.

Pursuant to the P.R. Code, inventories must be valued at the lower of cost or market value. The regulations offer a number of rules regarding the use of the accounting methods and the valuation of inventories of certain businesses such as securities, farming, livestock breeding, mining, manufacturing, and retailing.

### **(c) Reserve Methods**

The reserve method for deductions of bad debts is not allowed under the P.R. Code.

## **C. Gross Income <sup>73</sup>**

The meaning of gross income is broad and general. The P.R. Code provides that gross income includes gains, profits, and income derived from salaries, wages, or compensation for personal services, interest, rent, dividends, partnership profits, securities, or the transaction of any business carried on for gain or profit, or gains or profit and income derived from any source whatsoever. All income is taxable income unless specifically excluded.

Some of the more salient statutory exclusions from the gross income of corporations are:

- interest from obligations issued by the United States and any of its states, territories, the Commonwealth of Puerto Rico, or political subdivisions thereof and
- dividends from industrial development income that consists of interest derived from obligations of the Commonwealth of Puerto Rico or its instrumentalities or political subdivisions.

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<sup>72</sup> Methods contained in both 13 L.P.R.A. § 8422 and 13 L.P.R.A. § 8442.

<sup>73</sup> 13 L.P.R.A. § 8422.



### **(1) Capital Gains <sup>74</sup>**

Under the Puerto Rico Internal Revenue Code, corporations may elect to have gains that are derived from the sale or exchange of a capital asset: (i) taxed at a fixed income tax rate and have their other income taxed in the regular manner, or (ii) included as part of their gross income and taxed at the corresponding ordinary income tax rate.

If the first method of the two described above is chosen, all long-term capital gains and losses are excluded from the gross income that is taxed at the regular Puerto Rico corporate income tax rates. The alternate capital gains tax rate for corporations is 15%. A capital gain or loss is long-term if the capital asset was held by the transferor for more than six months prior to the transfer. The term “capital asset” is described in the P.R. Code by excluding items that are not capital assets. The following do not qualify as a capital asset:

- stock in trade of the taxpayer or other inventory-type property and property held primarily for sale to customers in the ordinary course of a trade or business;
- property used in a trade or business entitled to depreciation and real property used in a trade or business;
- copyrights to literary property, musical, or artistic composition, a letter or memorandum or similar property in the hands of the creator or the transferee that takes the basis of the creator; and
- accounts payable or promissory notes acquired in the ordinary course of business.

There are a number of other situations in which the requirement of a sale or exchange for capital gain treatment is missing, but a capital gain or loss will nonetheless result because a statute creates a deemed sale or exchange or a deemed capital gain or loss. Examples of those situations are: securities becoming worthless; retirement of bonds and other securities issued by corporations, partnerships, a government and political subdivisions thereof, with interest coupons or in registered form; gains or losses attributable to the failure to exercise privileges or options to buy or sell property; distributions in excess of earnings and profits and of the basis of the stock; and distributions in liquidations or in partial liquidations.

### **(2) Non-Recognition Transactions <sup>75</sup>**

There are certain transactions in which the gain realized is not recognized for tax purposes and therefore excluded from gross income. In general, the reason for not recognizing such gains is that the underlying transaction is not considered sufficient to break the continuity of the investment. This is the case, for example, with certain exchanges of like-kind property, involuntary conversions, corporate reorganizations, transfers to a corporation controlled by the transferor, property received by a corporation in a complete liquidation of its controlled subsidiary, securities exchanged for securities of the same corporation, and transfers of qualified securities to an employee stock ownership plan. The non-recognition of gain in these cases is, in effect, a deferral of the gain by means of assigning the basis of the transferred property to the property being received in the exchange.

### **D. Dividend Income <sup>76</sup>**

A Puerto Rico corporation’s dividends or partnership’s distributions are subject to a 10% withholding tax upon distribution (see sourcing rules above).

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<sup>74</sup> 13 L.P.R.A. § 8521.

<sup>75</sup> 13 L.P.R.A. § 8512.

<sup>76</sup> 13 L.P.R.A. § 8412.



An accumulated earnings penalty tax of 50% may be imposed if a corporation is determined to have been formed or used to prevent the imposition of income tax on its shareholders by accumulating corporate earnings instead of distributing such earnings to the shareholders. If the earnings have been accumulated because the reasonable needs of the business so dictate, the accumulated earnings penalty tax may not be imposed. When determining the amount of the accumulated earnings penalty tax, the accumulated earnings covered under a grant of industrial or tourist tax exemption and other similar laws are not taken into consideration.<sup>77</sup>

### **E. Interest Income** <sup>78</sup>

The source of interest income is generally determined by reference to the residence of the debtor. The P.R. Code grants special tax treatment to certain types of interest, such as interest on government bonds and interest on deposits in Puerto Rico financial institutions.

### **F. Business Expenses** <sup>79</sup>

#### ***(1) In General***

Expenses incurred by a corporation during the taxable year that are directly connected to its business activities are generally deductible provided they are ordinary, necessary, reasonable, and not in violation of public policy. In general, the rules for the deductibility of the business expenses of a corporation closely follow the rules applicable under the U.S. Internal Revenue Code.

However, there are certain items that are statutorily nondeductible even though they would otherwise qualify as a business expense. For example, life insurance premiums paid by a corporation on the life of an officer, employee, or person financially interested in the trade or business of the corporation, when the corporation is directly or indirectly the beneficiary of the policy, are not deductible. Also, payments made in relation to the acquisition, use, or maintenance of boats used in a trade or business are not deductible, unless:

- the boat constitutes a fisherman's working instrument;
- the boat is used exclusively for fishing as part of an industrial unit or as a tourist attraction;
- the boat is used by an entity engaged in fishing and for the exclusive transportation of fish for industrial processing in Puerto Rico; or
- the boat is used exclusively for transportation of passengers and cargo by entities duly authorized to conduct such activities in Puerto Rico.

#### ***(2) Organizational Expenses***

Organization expenditures, the benefit of which does not have a definite and fixed period of duration, are deductible only when the corporation or partnership is dissolved. When a corporate charter or certificate is issued for a limited time only, the expenses can be amortized over that period.

These nondeductible expenditures are generally incidental to the creation of the corporation or partnership, such as legal fees for drafting the corporate or partnership charter, by-laws, minutes of organizational meetings, and original stock certificates, fees for start-up accounting services, expenses of temporary directors and of organizational meetings of directors or stockholders, and state incorporating fees.

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<sup>77</sup> The accumulated earnings penalty tax is codified in 13 L.P.R.A. § 8502.

<sup>78</sup> 13 L.P.R.A. § 8413.

<sup>79</sup> 13 L.P.R.A. § 8423.



The nondeductible expenditures also relate to those incurred for issuing or selling shares of stock or other securities, such as commissions, professional fees, and printing costs. Other nondeductible expenditures relate to the transfer of assets to a corporation or partnership or the reorganization of a corporation.

### ***(3) Travel and Entertainment Expenses***

An employer may deduct the paid or reimbursed travel expenses incurred by its employees while working away from home, provided such expenses are ordinary, necessary, and reasonable. These expenses generally include transportation, meals, and lodging expenses for business-related travel.

The payment or reimbursement by an employer of the commuting expenses of an employee is not deductible as traveling expenses, but is deductible as additional compensation. Expenses incurred by an employee for commuting to and from the place of work are not deductible.

Food and entertainment expenses, in addition to being limited by the requirements of being ordinary, necessary, and reasonable, are subject to 50% and 25% limitation rules. The 50% limitation rule provides that only 50% of the total of such expenses are allowed as a deduction. The 25% limitation rule requires that the total of such deductions never exceed 25% of the gross income of the person taking the deduction.

### ***(4) Interest***

As a general rule, interest is only deductible if the taxpayer has an obligation to pay the interest and it is ordinary and necessary. The Treasury Department has allowed a deduction of interest that is not paid by the obligor if the party paying the interest is benefited by such payment. However, interest related to an indebtedness incurred to purchase obligations, which is exempt from Puerto Rico income tax, is not deductible.

The doctrine of “thin capitalization” has been applied frequently at the administrative level in Puerto Rico. Under this doctrine, debt may be treated as equity and interest payments as dividends if certain factors are present. Interest payments are deductible by the corporation but dividend payments are not.

### ***(5) Royalties***

Royalty payments are deductible within the category of ordinary and necessary expenses.

### ***(6) Retirement Plan Contributions***

Basically, retirement plans can be divided into two types: (i) qualified plans and (ii) non-qualified plans. Qualified plans are those specifically covered by the P.R. Code. These plans offer a special tax treatment to the: (i) employer, who is allowed to deduct contributions made to the plan; (ii) participants, who can defer the employer’s contributions until they are actually received; and (iii) the trust that controls and administers contributions to the plan and payments of benefits to the participants, which is treated as a tax-exempt entity. Qualified plans are heavily regulated and are subject to strict reporting requirements.

### ***(7) Taxes***

Taxes paid or accrued by persons that are not individuals are deductible unless otherwise excepted. Puerto Rico income tax and all inheritance, estate, legacy, succession, and gift taxes are specifically listed as nondeductible. Income taxes, war-profit taxes, and excess-profit taxes not imposed by Puerto Rico (*i.e.*, imposed by the United States or any of its possessions, or by a foreign government) are deductible, but only if they are not otherwise claimed as a credit.



Federal import duties and Puerto Rico excise taxes on manufactured and imported goods are not deductible (these charges are included as part of the costs of the goods). However, such taxes may be deductible if they qualify as necessary and ordinary business expenses. In such case, they would be deductible as a business expense and not as a tax, and would therefore be required to meet the ordinary and necessary test.

Automobile license fees are considered a tax. As such, they do not need to meet the “ordinary and necessary” test.

### ***(8) Depreciation and Depletion***

The cost of business assets with a useful life of more than one year may not be deducted in full in the year of acquisition because part of the cost relates to future years. This deduction is generally referred to as depreciation. Inventory and stock in trade are not depreciable property.

The three depreciation systems that may be used under the P.R. Code are:

- straight-line depreciation;
- accelerated cost recovery system (ACRS); and
- flexible depreciation.

The flexible depreciation deduction method is available to only certain types of businesses in relation to property acquired before the first taxable year commencing after June 30, 1995.

The ACRS method is a mathematical cost recovery concept and does not depend on the actual useful life of the property or on actual wear and tear. The ACRS method may not be applied to the following properties: automobiles not used for public transportation or rental business, property outside Puerto Rico, property used by tax-exempt organizations, intangible property, and property used in activities covered under an industrial or tourism tax exemption grant. Property covered under the ACRS method is divided into four classes:

- The 5-year class includes automobiles for public transportation, leasing, and other vehicles, qualified high technology equipment, trailers and tow trucks, tools, dairy and breeding cattle, and any other like-kind asset.
- The 10-year class includes assets used in the wholesale and retail sales business and in personal professional services, furniture and fixtures, manufacturing equipment used to make (among other things) fabric, textile products, medical and dental products, chemical products, electric machinery, aerospace products, equipment used in certain agricultural activities, in satellite, telegraphic, and overseas cable communications, waste reduction and recycling plants, assets used in the printing industry, and any other like-kind asset.
- The 15-year class includes assets used in air transportation, thematic and recreational parks, satellite communications, natural gas production plants, structures for use in agricultural and horticultural activities, manufacturing equipment used (among others) to make jewelry, musical instruments, handling of pulp and paper materials, glass products, tobacco products, and any other like-kind asset.
- The 20-year class includes vessels, maritime transportation equipment, electric power generators in satellite communications, land improvements, electric and steam generator systems, manufacturing equipment used (among other things) to manufacture natural gas with methanol, assets used in the production of sugar, vegetable oil, cement, and any other like-kind asset.



The depreciation deduction under the ACRS method is summarized as follows:

<b>Class of property</b>	<b>Recover Period</b>	<b>Depreciation Method</b>
5-year class	5 years	200% declining balance
10-year class	10 years	200% declining balance
15-year class	15 years	150% declining balance
20-year class	20 years	150% declining balance
Residential (rental)	30 years	150% declining balance
Nonresidential	35 five years	150% declining balance

There is no salvage value taken into consideration when using the ACRS method.

Real property placed in service during the taxable year is considered to have been placed in service at mid-year. This rule also applies to the disposition of property within a year. All other depreciable property under the ARCS method placed in service during the taxable year is treated as placed in service at the midpoint of the month it is placed in service.

A recapture of gain is required when property that was depreciated under the ACRS or the flexible depreciation methods is disposed of. The gain is recaptured in an amount equal to the excess of the depreciation deduction that was taken under the accelerated depreciation method over the amount of depreciation computed under the straight-line method up to the date of the qualifying disposition. The recapture is generally not applicable to dispositions in which the gain realized is not recognized for income tax purposes.

There are other special depreciation rules, including:

- Automobiles that are not used for public transportation or in a rental business. As a general rule, such automobile must be depreciated during a five-year period, unless the automobile is used by a salesperson, in which case it may be depreciated during a three-year period. The maximum basis permitted in depreciating automobiles (except those used in public transportation or in the rental business) is \$25,000.
- Small and medium sized enterprises. For years starting after December 31, 2008, small and medium size entities (PYMES) may elect to deduct the total cost of equipment of computer systems and its installation in the year of its acquisition and installation. For a business to qualify as a small or medium size entity, its total income may not exceed \$5 million. For years starting after December 31, 2008, PYMES may elect to depreciate land transportation equipment (other than automobiles) and environmental conservation equipment by using the straight-line method with a two-year useful life.
- Goodwill acquired by purchase may be depreciated during a 15-year period using the straight-line method. Patents and copyrights may be depreciated over the term of their legal life.



#### ***(9) Obsolescence***

Generally, obsolescence is taken into consideration when determining the useful life of property. A special deduction for extraordinary obsolescence may be allowed when the economic life of the property ends prior to the termination of its normal useful life.

#### ***(10) Charitable Contributions***

Corporations may deduct charitable contributions made within a year to certain organizations, such as religious, charitable, scientific, literary, or educational organizations. The amount of charitable contributions made by a corporation during a year may not exceed 5% of its net income, computed without the benefit of the charitable deduction. Charitable contributions made in excess of 5% of net income may be carried over to the following five years. The 5% limitation is not applicable with respect to contributions made to municipalities for purposes of an historical or cultural value, certified as such by the Institute of Puerto Rican Culture or the Cultural Center of the corresponding municipality, provided the amount of the contribution is in excess of \$50,000 and is for the celebration of the quinquennial year of the municipality's establishment.

#### ***(11) Capital Losses***

Corporations and partnerships are only allowed to deduct capital losses to the extent of capital gains, with a five-year carryover of excess capital losses. During the carryover period, the carried-over capital losses are treated as short-term capital losses.

#### ***(12) Casualty Losses***

Casualty losses sustained by a corporation and not compensated for by insurance or otherwise are deductible. The basis for determining the amount of the loss sustained is the adjusted basis of the lost property.

#### ***(13) Bad Debts***

Corporations are entitled to an ordinary deduction for business debts that become worthless, or for the part of such debts that become worthless, during the taxable year. To allow the deduction for a bad debt, the taxpayer must have included the amount of such debt as income.

#### ***(14) Worthless Bonds and Similar Obligations; Worthless Stock and Right to Acquire Stock***

If bonds, debentures, notes, certificates of debt, and other similar evidences of indebtedness become worthless during the year, the loss is considered due to the sale or exchange of a capital asset on the last day of the taxable year. In that instance, the corporation holding the worthless securities will have a long-term or short-term capital loss depending on the length of the period during which the security was held. If the worthless security was held for more than six months, the loss will be treated as a long-term capital loss; otherwise it will be treated as a short-term capital loss. Partial worthlessness and reduction in value due to market fluctuations are not deductible.

#### ***(15) Inventory Write-downs***

Goods in inventory that are unsalable at normal prices or unusable because of damage, imperfections, shop wear, change of style, odd or broken lots, or other similar causes may be valued at their bona fide selling price less the direct cost of their disposition. The bona fide selling price is the selling price at which the goods are offered at a date not later than 30 days after inventory date.



### **(16) Rents**

Rental payments made by a corporation are generally considered part of the business expenses of the corporation and, thus, deductible. Property taxes on leased property paid by the lessee pursuant to the terms of the lease are considered additional rent paid by the lessee. The amount of the property tax on the leased property paid by lessee is deductible by the lessor.

A person acquiring a leasehold for a specified sum may take a deduction for the proportional amount of the sum for each year based on the number of years remaining in the lease term. Likewise, the cost incurred by the lessee to construct buildings and/or make permanent improvements to the leased property must be capitalized by the lessee and deducted throughout the years remaining in the lease term instead of the depreciation deduction. However, if the useful life of the constructed building and/or the permanent improvement made by the lessee is less than the remaining years in the lease term, the lessee must take the deduction for depreciation during the corresponding useful life. As a general rule, if the lease has an option for a renewal period, such renewal period is not taken into consideration when determining the remaining years of the lease term, unless the lease has already been renewed or there is reasonable certainty that it will be renewed.

The economic benefit derived by the lessor at the termination of a lease, represented by the value of the building or the permanent improvements made by the lessee in the leased property, is excluded from the gross income of such lessor.

### **(17) Salaries and Wages**

All reasonable salaries and wages, as well as commissions, bonuses, fees, compensation payments, and other similar payments made for services rendered paid by corporations, are deductible as a business expense.

### **(18) Other Miscellaneous Deductions**

There are a number of other miscellaneous deductions available to corporations including a \$400 deduction for each severely handicapped person employed at least 20 hours a week for at least nine months in the taxable year, up to a maximum of five severely handicapped persons, and an amortization deduction for bond premiums.

### **(19) Capital Expenditures <sup>80</sup>**

The P.R. Code follows closely the U.S. Internal Revenue Code with respect to capital expenditures. Also, the concept of capital expenditures is also based on the principle that the accounting method used must clearly reflect income.

Capital expenditures, instead of being deducted in the year in which they are paid or accrued, are included as part of the basis of the acquired or improved asset. In addition, depending on the asset and the circumstances involved, such capital expenditures will be depreciated, amortized, or depleted pursuant to the applicable depreciation, amortization, or depletion rules, or included as part of the basis until the asset is sold or disposed of. Amounts paid for securing a copyright, defending or perfecting title to property, architect's services in relation to the construction of a building, and commissions in purchasing securities are capital expenditures.

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<sup>80</sup> 13 L.P.R.A. § 8424



## G. Loss Carryovers <sup>81</sup>

For purposes of determining the amount of the net operating loss carryover, net operating loss equals the excess of deductions over gross income, subject to certain adjustments. In the case of corporations, the adjustments are as follows:

- Tax-exempt interest received during the year is added back.
- Interest that was not deducted because it was paid or accrued in relation to obligations incurred to acquire or possess obligations that pay tax-exempt interests is deducted.
- Expenses that were not deducted because they were in relation to the production of exempt income are deducted.
- Interest that was not deducted by financial institutions because it was attributed to obligations, acquired by such institutions after December 31, 1987, that paid tax-exempt interest is deducted.
- The net operating loss deduction carry forward from previous years is not deducted.

The net operating loss may be carried over to the following seven years.

## H. Tax Credits <sup>82</sup>

### (1) Foreign Tax Credit

To mitigate or eliminate the risk of double taxation of the same income, Puerto Rico corporations have the option of either deducting or crediting the income and excess profit taxes paid or accrued during the taxable year to the United States, any possession of the United States, or any foreign country. However, a Puerto Rico corporation may not, in the same taxable year, take a deduction for some of the non-Puerto Rico income tax paid and take a credit for the other non-Puerto Rico income tax paid.

When non-Puerto Rico income tax is credited, it is treated as a payment of Puerto Rico income tax except that it may not give rise to a refund. No foreign tax credit is allowed to reduce the accumulated earnings penalty tax.

The amount of the foreign tax credit is subject to the per-country limitation and the overall limitation. The formula used to determine the per-country limitation as to the foreign tax paid or accrued is:

$$\text{Puerto Rico income tax} \quad \times \quad \frac{\text{Normal tax net income from sources within a foreign country}}{\text{Total normal tax net income}}$$

The sum of the maximum foreign tax credit resulting from the computations above is subject an overall limitation formula, which may be expressed as follows:

$$\text{Puerto Rico income tax} \quad \times \quad \frac{\text{Normal tax net income from sources outside Puerto Rico}}{\text{Total normal tax net income}}$$

The excess U.S., possessions, and foreign taxes paid or accrued by the Puerto Rico corporation over the foreign tax credit actually allowed in a taxable year may not be carried back or forward for use in other taxable years.

<sup>81</sup> 13 L.P.R.A. § 8524.  
<sup>82</sup> 13 L.P.R.A. § 8531.



In addition to the foreign income and excess profits taxes paid or accrued, a Puerto Rico corporation may be deemed to have paid the foreign income and excess profits tax allocable to the distributed earnings received from its foreign subsidiary.

**(2) Other Credits <sup>83</sup>**

Amounts withheld may be used as a credit to reduce the recipient's tax liability. A credit is also available for contributions made to the Educational Foundation for the Free Selection of Schools up to maximum of \$500 per year. Also, there are certain tax credits available in relation to dividends paid by a corporation operating under a grant of tax exemption if investment requirements are met by the distributing corporation.

**I. Tax Rates and Calculation of Taxable Income <sup>84</sup>**

**(1) Corporate Income Tax Rates**

Puerto Rico corporations and non-Puerto Rico corporations engaged in trade or business in Puerto Rico face a corporate tax rate composed of two parts: (1) a "normal" tax, which is fixed at 20%, and (2) a variable "surtax."

**(a) Normal Tax**

The first component is calculated by multiplying normal net taxable income times the 20% normal tax rate. The normal taxable net income is regular net taxable income less 85% (or 100%<sup>85</sup>) of the dividend income received from Puerto Rico corporations.

**(b) Surtax**

The net income subject to a surtax is normal taxable net income minus \$25,000. This amount is multiplied by the applicable surtax rate to determine the surtax owed. The surtax rates are as follows:

Net Income	Surtax
not over \$75,000	5%
over \$75,000 but not over \$125,000	\$3,750 plus 15% of the excess over \$75,000
over \$125,000 but not over \$175,000	\$11,250 plus 16% of the excess over \$125,000
over \$175,000 but not over \$225,000	\$19,250 plus 17% of the excess over \$175,000
over \$225,000 but not over \$275,000	\$27,750 plus 18% of the excess over \$225,000
over \$275,000	\$36,750 plus 19% of the excess over \$275,000

If the corporation is a member of a controlled group of corporations, this \$25,000 credit to the normal taxable net income must be distributed among the members of the controlled group.

<sup>83</sup> 13 L.P.R.A. § 8440(a).

<sup>84</sup> 13 L.P.R.A. §§ 8415-8417.

<sup>85</sup> A 100% deduction is allowed to small business investment companies operating in Puerto Rico under the federal Small Business Investment Act of 1958 for these dividends or partnership profits received. Also, businesses can deduct from their net income 100% of dividends or partnership distributions from taxable controlled domestic corporations or partnerships (generally, control entails ownership of at least 80% of the combined total voting power of all voting stock and 80% of the total value of all kinds of stock).



Beginning with taxable years commencing after December 31, 2008 and ending before January 1, 2012, there will be a temporary special surtax applicable to taxpayers with a gross income exceeding \$100,000. The additional special surtax is a 5% over the total tax determined.

### **(c) SMEs**

Small- and medium-sized entities, or SMEs are those businesses whose total income does not exceed \$5 million. SMEs can elect to be taxed using the standard corporate tax formula described above: normal tax on taxable income plus the surtax on taxable income less \$25,000. In the alternative, they can elect to be taxed on their net taxable income at a flat tax rate of 25% (if their total income does not exceed \$5 million and they maintain a minimum of seven full-time, non-temporary employees residing in Puerto Rico) or 30% (if their total income does not exceed \$5 million but they do not have seven employees). Corporations making the latter election are not subject to the corporate surtax.

### **(2) Elimination of the Graduated Tax Rates Benefit**

When the net taxable income of a Puerto Rico corporation or of a non-Puerto Rico corporation engaged in trade or business in Puerto Rico exceeds \$500,000 in a taxable year, a 5% additional tax is imposed on the net taxable income in excess of \$500,000 until the maximum tax rate to be paid by the corporation on all its taxable income reaches 39%.

### **(3) Alternative Minimum Tax**

The alternative minimum tax (AMT) is designed to ensure that corporations with substantial economic income may not avoid paying a reasonable amount of income tax by using exclusions, deductions, and credits available to them. The Puerto Rico AMT equals the excess of the amount of the tentative minimum tax over the amount of the normal corporate tax plus surtax. The tentative minimum tax is equal to 22% of the excess of net alternative minimum income over the exempt amount. The exempt amount equals \$50,000 reduced (but not below zero) by 25% of the alternative minimum net income over \$500,000.

The alternative minimum net income equals the net taxable income subject to certain adjustments. The following adjustments are made to net taxable income to determine the alternative minimum net income:

- The straight-line method is applied.
- The retail sales method is changed to the accrual method.
- The method of percentage of completion of construction is used for construction contracts in excess of one year.
- Financial institutions may deduct interest expenses related to tax-exempt interest.
- The net operating loss is subject to additional limitations; and
- Exempt interest is added back.



The AMT does not apply to:

- foreign corporations and partnerships that are not engaged in trade or business in Puerto Rico;
- special partnerships;
- corporations of individuals;
- registered investment companies;
- real estate investment trusts;
- special corporations owned by employees;
- corporations and partnerships operating under a grant of industrial or tourism tax exemption, but only in relation to the income covered by the grant; or
- corporations or partnerships operating bona fide agricultural businesses, but only to the extent that the income derived from the activity is allowed as a deduction.

However, it is important to mention that payments made to related persons for services not rendered in Puerto Rico and not subject to taxation in Puerto Rico will not be allowed as a deduction for purposes of computing the Alternative Minimum Tax Income. For these purposes, the term “related persons” refers to non-resident aliens or foreign corporations or partnerships not engaged in trade or business in Puerto Rico if there is 50% or more of overlapping ownership.

## **J. Assessment and Filing <sup>86</sup>**

### ***(4) Corporate Income Tax Return***

All Puerto Rico corporations and all non-Puerto Rico corporations that are engaged in trade or business in Puerto Rico are required to file an income tax return and pay the corresponding Puerto Rico corporate income tax on or before the fifteenth day of the fourth month following the close of its taxable year.

An automatic 3-month extension of time will be granted to corporations for the filing of income tax returns if the extension request is filed on or before the due date of the filing of the income tax return. The extension must be filed accompanied by the full balance of the income tax due.

### ***(5) Estimated Tax***

In addition to the corporate income tax return, every corporation engaged in trade or business in Puerto Rico is required to estimate its tax liability for the current taxable year. The estimated tax may be paid in four installments by the 15th day of the fourth, sixth, ninth, and twelfth months.<sup>87</sup>

### ***(6) Consolidated Returns***

The P.R. Code does not provide for the filing of corporate returns on a consolidated basis.

## **K. Funding the Corporation <sup>88</sup>**

As a general rule, no income is recognized by a Puerto Rico corporation on the original issuance of its stock. However, the P.R. Code requires that if the transferor consists of more than one person, the amount of shares and securities received by each person must be proportional to his interest in the transferred property prior to the transfer.

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<sup>86</sup> 13 L.P.R.A. § 8453.

<sup>87</sup> 13 L.P.R.A. § 8462.

<sup>88</sup> 13 L.P.R.A. §§ 8512(b) and 8512(o).



When a corporation assumes the liabilities of the transferor or receives property from the transferor subject to liabilities, such assumed liability is not treated as a receipt of money or other property by the transferor in determining whether the transfer is “solely in exchange of stock or securities.” However, for the purpose of determining whether the stock or securities received by the transferors are substantially proportionate to their interest in the transferred property, the assumed liabilities are treated as stock or securities received by transferors.

The basis of the stock or securities received by a transferor in a non-recognition exchange with a Puerto Rico corporation is equal to the basis of the property transferred in exchange for the stock or securities, decreased by the amount of money received, increased by the amount of gain recognized, and decreased by the amount of loss recognized by the transferor. The liability assumed by the corporation is treated as money received by the transferor for the purpose of determining the basis of the stock or securities received by the transferor.

## **L. Reorganizations in General <sup>89</sup>**

In general, the reorganization rules under the P.R. Code follow a pattern similar to that of the reorganization rules of the U.S. Internal Revenue Code, with the principle underlying both codes being that no gain or loss should be recognized because the new corporate structure is merely a continuation of the previous corporate structure. The recognition of gain or loss is postponed by means of a carryover of the basis. The reorganization rules are also applicable to partnerships.

The P.R. Code lists the same types of reorganizations as the U.S. Internal Revenue Code, except the P.R. Code does not list the transfer by a corporation of all or part of its assets to another corporation in a Title 11 bankruptcy filing or a receivership, foreclosure, or similar proceeding in a federal or state court. However, the P.R. Code specifically provides that no gain or loss is recognized in certain exchanges made in connection with the reorganization of an insolvent corporation affected in a receivership, foreclosure, or other similar court proceeding, or in a court reorganization proceeding under Section 77B or Chapter X of the federal Bankruptcy Code.

### **(1) Liquidations <sup>90</sup>**

Generally, a gain or loss may be recognized upon the liquidation of a Puerto Rico corporation at both the corporate and shareholder levels. At the corporate level, liquidation will be treated as if the corporate assets are being sold to the shareholder at fair market value. At the shareholder level, the liquidation is treated as an exchange by the shareholder of its shares of stock for the assets received from the corporation. Thus, a gain or loss will be recognized based on the difference between the fair market value of the assets received and the adjusted basis of the shares of stock being surrendered.

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<sup>89</sup> 13 L.P.R.A. § 8512.

<sup>90</sup> *Id.*



No gain or loss is recognized upon the complete liquidation of a controlled subsidiary into its parent corporation. In this case, control is the ownership of at least 80% of the total combined voting power and at least 80% of the total number of shares of all other classes of stock. This ownership requirement must exist on the day that the liquidating plan is adopted and must continue to exist until the liquidating distribution is made. If there is only one liquidating distribution, all the property must be transferred to the parent in the same tax year. If there are a series of distributions, all the properties must be transferred to the parent within three years from the close of the taxable year during which the first distribution was made.

***(2) Acquisition of Stock with Step-up in Basis of Assets of Acquired Corporation***<sup>91</sup>

A corporate tax election is available to an acquiring corporation to step up the basis of the assets in a target corporation the stock of which it purchased.

**M. Foreign Entities Doing Business in Puerto Rico**<sup>92</sup>

A foreign corporation (one that is organized under the laws of a country other than Puerto Rico) may engage in trade or business in Puerto Rico as a division or branch of that foreign corporation or as a separate corporation or subsidiary. Resident foreign corporations are taxed in Puerto Rico on their Puerto Rico source income and on any effectively connected income at the same graduated tax rates as any domestic corporation.

***(1) Subsidiary***

A foreign corporation that is engaged in a trade or business in Puerto Rico must treat the following as income effectively connected to its trade or business in Puerto Rico:

- all income from sources within Puerto Rico;
- income attributable to an office or other fixed place of business in Puerto Rico that consists of:
- rents or royalties derived from the use outside Puerto Rico of intangibles such as secret processes, formulae, patents, trademarks, franchises, and copyrights;
- dividends or interest, or gain or loss from the sale or exchange of stocks or bonds or other evidences of indebtedness that is either derived from a banking or financing business or from a corporation trading in stocks or securities for its own account; and
- gains or losses derived from the sale or exchange of personal property outside Puerto Rico through the corporation's office or fixed place of business in Puerto Rico (except gains or losses from the sale of personal property that is manufactured outside Puerto Rico and is to be used, consumed, or disposed of outside Puerto Rico);
- income or gain attributable to the rendering of services or the sale of property in another year if in such other year it would have been treated as effectively connected income; and
- gain or loss from the sale or disposition of property that is used in connection with a trade or business in Puerto Rico or that ceased to be used in connection with a trade or business in Puerto Rico within the previous 10 years.

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<sup>91</sup> 13 L.P.R.A. § 8515.

<sup>92</sup> 13 L.P.R.A. § 8523.



The foreign subsidiary will be allowed to deduct the expenses directly allocable to the Puerto Rico business. In addition, a reasonable apportionment of expenses not directly related to any item of income shall be allowed as a deduction.

Any actual repatriation of dividends will be subject to a 10% income tax withholding at source.<sup>93</sup>

Foreign corporations not having any office or place of business in Puerto Rico must file their Puerto Rico income tax returns on or before the fifteenth day of the sixth month following the close of their taxable year. However, if the Puerto Rico income tax liability of a foreign corporation was paid in full under the withholding provisions, the foreign corporation will be exempt from the filing requirement.<sup>94</sup>

A foreign corporation that is not engaged in trade or business in Puerto Rico, but derives income from real property located in Puerto Rico owned for the production of income, may elect to treat such income as connected to the conduct of a trade or business in Puerto Rico, whether the income is rent or gain from the sale or exchange of the property. If it exercises the election, the foreign corporation not engaged in trade or business in Puerto Rico will be taxed on the real property net taxable income at regular Puerto Rico income tax rates instead of a 29% tax rate on the gross income from the real property. However, the election does not by itself cause any other income received by the foreign corporation not engaged in trade or business in Puerto Rico to be treated as income effectively connected to a trade or business in Puerto Rico.

### **(2) Branch Profit Tax<sup>95</sup>**

Income taxation of a U.S. branch is the same as for a U.S. subsidiary. The only difference will be that a deemed dividend distribution tax (branch profit tax or BPT) will be assessed on the branch upon any advances made to its home office. The BPT rate is 10% of the “dividend equivalent amount.” Broadly speaking, the BPT would be imposed if the earnings and profits derived by the Branch were not reinvested in Puerto Rico as of the end of the taxable year. Comparing the net equity at the end of the taxable year and the net equity at the beginning of the taxable year makes the determination whether the amount was invested or reinvested.

A foreign corporation is not subject to the branch profit tax in a taxable year if for the current and two preceding taxable years at least 80% of its gross income was effectively connected with a Puerto Rico trade or business.

In determining taxable income, the branch will take into consideration items of income effectively connected with the conduct of a trade or business in Puerto Rico. The branch will be allowed to deduct the expenses directly allocable to the Puerto Rico business. In addition, a reasonable apportionment of expenses not directly related to any item of income shall be allowed as a deduction.

## **N. Other Reporting Requirements<sup>96</sup>**

Informative returns are to be filed for any payment of dividends or any payment in excess of \$500 to individuals for interest, rents, salaries, or wages not otherwise reported, premiums, annuities, compensations, remuneration, or other fixed or determinable gains, profits, and income. Any person who credits or makes

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<sup>93</sup> 13.L.P.R.A. § 8616.

<sup>94</sup> 13.L.P.R.A. § 8620.

<sup>95</sup> 13.L.P.R.A. § 8616.

<sup>96</sup> 13.L.P.R.A. § 8552.



payments to an individual of \$500 or more and who becomes obligated to withhold the tax on such payments shall file a return specifying the total amount of interest paid or credited, the tax deducted and withheld, the name, address and the account number of the person to whom the payment or withholding was made. Such return shall be filed on or before February 28 of the year following the calendar year in which the interest was paid.

## **O. Tax Withholding <sup>97</sup>**

### ***(1) Wages***

Withholding is generally applicable to all of an employee's wages for services performed for his employer. Non-cash wages are measured by their fair market value at the time of transfer.

### ***(2) Services***

In general, payments made in the conduct of a trade or business or for the production of income in excess of \$1,500 to another person (natural or juridical) for services performed within Puerto Rico are subject to a seven percent (7%) withholding. The amount withheld should be deposited with the Secretary of the Treasury on or before the fifteenth (15) day of the month following the close of the month in which the tax was deducted. The following payments are exempted from this requirement:

- payments made to hospitals, clinics, terminal patient homes, homes for elderly and institutions for the disabled;
- payments made to organizations that are exempt pursuant to the provisions of the Code;
- commission payments made to direct salespersons for the sale of consumer products;
- payments made to contractors or subcontractors for construction work;
- payments for services rendered by nonresident individuals or foreign corporations or partnerships that are not involved in an industry or business in Puerto Rico that is subject to withholding requirements under a different set of rules established in the P.R. Code;
- payments of salaries subject to withholding under a different set of rules established in the P.R. Code;
- payments for services to corporations that are current in their tax responsibilities;
- payments made to the Government of Puerto Rico, including its agencies, instrumentalities, public corporations and political subdivisions;
- payments for services to individuals during the first three years of their commencement of rendering the service activities;
- payments made to bona fide farmers that qualify for a special deduction established in the Code;
- payments made directly, or through an agent or representative, to an air or maritime carrier (eligible carrier);
- payments made by an eligible carrier to a nonprofit entity engaged in the business of bookkeeping, registering, reporting and collecting sales for air or maritime transportation tickets and other related services, on behalf of or for the benefit of such eligible carrier; and
- payments for services rendered by priests or other duly authorized or ordained ministers, including Hebrew rabbis.

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<sup>97</sup> 13 L.P.R.A. §§ 8541-8560.



Corporations and partnerships may get a reduced withholding tax of 3% if they are in good standing with the P.R. Treasury Department. A “Partial Relief of Withholding Certificate” must be obtained and remitted to each customer. In addition, there is a “Total Waiver of Withholding Certificate” that provides a total exemption from the 7% income tax withholding to corporations and partnerships that meet certain requirements. Individuals are no longer eligible for the partial relief withholding certificate. Therefore, all payments for services made to individuals are subject to a full 7% withholding.

The tax must be deposited on or before the 10th day of the month following the month in which the tax was deducted and withheld. In addition, an informative return must be filed by February 28th of the following year covering such payments and withholdings during the calendar year. Also, a form should be filed summarizing the number of informative returns filed.

An Annual Reconciliation Statement of Withholding at Source on Payments for Services Rendered must be filed by the same date. The Puerto Rico Department of Treasury requires that every person that is obliged to file 5 or more informative returns must do so electronically.

**(3) Fixed or Determinable Annual or Periodic Income**

A withholding of income tax at source is required to be made on payments of interest, rent, salaries, wages, participation in partnership profits, commissions, premiums, annuities, remuneration, compensation, dividends, or other fixed or determinable, annual or periodical gains, profits and income (but only to the extent that any of the items constitute gross income from sources within Puerto Rico) to nonresident individuals, or nonresidents fiduciaries, or foreign corporations and foreign partnerships, not engaged in trade or business within Puerto Rico. The Company would be required to withhold and deduct a tax at the following rates:

Nonresident individuals citizen of the United States (Except on dividends)	20%
Nonresident alien individuals (Non US citizen) (Except on dividends and interest paid to a related person)	29%
Nonresident fiduciaries	29%
General rule, foreign corporations and partnerships not engaged in trade or business within Puerto Rico (Except on dividends and interest paid to a related person)	29%
Dividend payments to foreign corporations and partnerships not engaged in trade or business within Puerto Rico	10%
Sales of property by nonresident aliens	25%
Dividend payments from corporations and partnership engaged in the operations of hotel manufacturing or shipping businesses, or industrial development income	10%



## **P. Municipal License Tax <sup>98</sup>**

The municipal license tax is imposed on gross income. The tax rate varies depending on the municipality but ranges from 0.2% to 0.5% in the case of non-financial businesses. For financial business the tax rate ranges from 1% to 1.50%. This tax is payable directly to the municipality.

A number of business activities and types of income are exempt from municipal license taxes. For example, businesses operated by or for the government, businesses with a volume of business of less than \$5,000, income from the sale of agricultural products to farmers, tax-exempt nonprofit organizations, international banking entities and insurance companies, the exporting activities of businesses operating in a tax free zone, income from services performed as an employee, income from the sale of oil and its derivatives to the Puerto Rico Electric Power Authority, and plants engaged in the processing of tuna (provided they employ 300 or more individuals in the same physical facility) are 100% exempt from municipal license taxes.

The municipal license tax annual return must be filed every year on or before April 15, or within five working days after April 15. The municipal license tax may be paid in two equal installments. The first installment is paid from July 1 to July 15 after the due date for the filing of the return corresponding to that tax. The second installment is paid from January 1 to January 15 of the year following the year of the due date for the filing of the return. If the total municipal license tax is paid at that time, a 5% discount is applied.

Financial statements certified by a CPA licensed in Puerto Rico must be attached to the declarations if the total volume of business is or exceeds \$3,000,000. Otherwise a copy of the income tax return, stamped on all its pages as received by the Department of the Treasury, should accompany the declaration.

After the payment of the first installment, the municipality will issue a municipal license that must be posted in a clearly visible place in the business or service establishment.

## **Q. Property Taxes <sup>99</sup>**

Municipalities may impose, by means of municipal ordinances, a property tax of up to 4% per annum on the appraised value of all taxable personal property in the municipality and up to 6% per annum on the appraised value of all taxable real property in the municipality.

Real property taxes and personal property taxes are imposed as of January 1 of each year. Therefore, persons that did not own the property as of that date are not subject to the property tax. Likewise, if the property was owned as of January 1 but was sold during the course of that year, the owner of the property as of January 1 is liable for the payment of the corresponding property tax for that year.

Municipalities do not have jurisdiction to impose property taxes on property located outside Puerto Rico. Likewise, property in interstate or foreign commerce is not subject to the Puerto Rico property tax. On the other hand, a property tax may be imposed on property located in Puerto Rico prior to being transported in interstate commerce or after the property finally comes to rest in Puerto Rico. If, on the assessment date, the property is under the control of the carrier and is to be shipped outside Puerto Rico, it is in interstate commerce and thus exempt from property tax. However, if the property had been sold to a buyer outside Puerto Rico but was still in the hands of the seller on the assessment date, the property tax liability for the property remains the responsibility of the seller, even if on the next day it is delivered to the carrier for shipment outside Puerto Rico.

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<sup>98</sup> 21 L.P.R.A. §§ 651-652y.

<sup>99</sup> 21 L.P.R.A. §§ 5001-5010.



### **(1) Personal Property Tax <sup>100</sup>**

Any natural or juridical person engaged in a Puerto Rico trade or business and that as of January 1 owns personal property used in the trade or business must pay personal property tax to the municipality in which the property is located. The rates depend on the municipality and are imposed on the market value of the property. The market value is initially determined by the taxpayer. Generally, book value is accepted as equivalent to fair market value, but if book value does not reflect fair market value, the municipality may revalue the personal property.

Taxable property normally includes cash on hand, inventories, materials and supplies, furniture and fixtures, and machinery and equipment used in the trade or business. A minimum residual value is assigned to items that are substantially depreciated. There are certain exemptions established in the P.R. Code.

A personal property tax return must be filed on or before May 15 of each year in the corresponding regional office of the Municipal Revenue Collection Center, together with the full payment of such tax. If full payment of the personal property tax is received on or before May 15, a 5% discount is allowed.

If the volume of business (defined as gross receipts) of the corporation exceeds \$3,000,000, the property tax return must be reviewed by, and accompanied by financial statements certified by, a Puerto Rico licensed CPA. The financial statements of foreign corporations engaged in business in Puerto Rico should reflect solely their operations in Puerto Rico.

A trial balance of the corporation's business activities in Puerto Rico as of the preceding January 1 is required when the corporation does not have a calendar year closing. The trial balance must be traced to the corporation's accounting records and accompanied by a report from an accountant affirming that the trial balance is in agreement with the books of account of the business.

### **(2) Real Property Tax <sup>101</sup>**

The real property tax is imposed on the value of the property as assessed by the Municipal Revenue Collection Center. The tax is payable semi-annually on July 1 and January 1 of each year.

The assessed value is the valuation of property for property tax purposes, which is equal to the fair market value of the corresponding real property in the year 1958.

A recent amendment imposes a special temporary tax on residential and commercial real property. This special tax is .0591% of the assessed value of the real property and will be applicable for the government fiscal years commencing on July 1, 2009 and ending on June 30, 2012.

## **R. Excise Tax <sup>102</sup>**

The Puerto Rico Code imposes an excise tax on certain articles imported into and manufactured in Puerto Rico. The P.R. Code has three types of excise taxes.

First, there is an excise tax on imports and products manufactured in Puerto Rico. This excise tax is imposed only once on articles imported, sold, consumed, used or transferred in Puerto Rico. This tax is imposed on cement manufactured in or introduced into Puerto Rico, sugar, plastic products, cigarettes, fuels, products derived from oil and hydrocarbon mixture, and vehicles; the tax rates are different for the different products.

<sup>100</sup> 21 L.P.R.A. §§ 5201-5240.

<sup>101</sup> 21 L.P.R.A. §§ 5001-5010.

<sup>102</sup> 13 L.P.R.A. §§ 9001-9084.



Second, there is an excise tax on certain transactions, including sales of jewelry, occupancy or rooms in hotels, public shows, and horse racing winnings; the tax rate varies depending on the transaction.

Third, there is an excise tax in the form of licenses for the sale of certain articles or the conduct of certain activities. In addition, there are several exceptions to this general rule and some exemptions to the imposition of the tax.

### **(1) Manufacturers**

In the case of Puerto Rico manufacturers selling their manufactured products in Puerto Rico subject to excise tax, the taxable price in Puerto Rico is equal to 72% of the selling price. The corresponding excise tax rate is then applied to that amount.

### **(2) Importers**

An importer's cost in Puerto Rico shall be the sum of all the costs, excluding those for freight and insurance, that make possible the arrival of an article to a Puerto Rico port of entry, regardless of its name or its origin. The cost also includes certain royalties or commissions, plus 10% of the sum of the related costs by reason of freight and insurance. The cost in Puerto Rico shall not be reduced for discounts for prompt payment, or for discounts granted by reason of volume of purchase, by reason of sales volume or considerations of a speculative nature, but it may be reduced for commercial discounts that are granted to reduce the prices stipulated in lists, catalogs, advertisements, or other publications to the prevailing market prices or for converting the consumer price into a wholesale or retail price, as long as the Secretary of the Treasury of Puerto Rico determines that such reduction is properly warranted. For these importers the effective tax rate is 6.6% of the cost.

Importers of merchandise are required to declare and pay the excise tax at the time of introduction.

Additionally, they must file monthly declarations and pay the applicable Excise Tax for imports of goods via the U.S. Postal Service.

Importers who satisfy certain requirements and elect to participate in the bonded program will be assigned an excise tax identification number. The identification number is renewable every year. If it is not renewed, the number will be inactivated and the privilege of getting an automatic release of the merchandise in the port will be suspended.

### **(3) Exemptions**

Raw material to be used in Puerto Rico for the manufacture of finished products, excluding hydraulic cement, is exempt from the excise tax.

Also considered as exempted articles in transit and for export are those consigned to the dealer/importer with the intent of having them exported. These articles are exempt from the excise tax during the period they are in the custody of the custom authorities or deposited in a bonded warehouse or in a Foreign Trade Zone.

Additionally, articles introduced into Puerto Rico or originally acquired in Puerto Rico from a local manufacturer are exempt from the excise tax if they (i) have not been sold, used, or transferred in Puerto Rico or (ii) are in possession of dealers-importers or dealers who have acquired them from manufacturers in Puerto Rico and sold for use and consumption abroad.



## S. Sales and Use Tax <sup>103</sup>

Every merchant engaged in any business that sells taxable items is responsible to collect the Sales and Use Tax (SUT) as a withholding agent. The SUT rate is 7% (5.5% for the Commonwealth of Puerto Rico and 1.5% for municipalities; however 6% is always collected by Hacienda) and in general will apply to the following items:

- taxable personal property; <sup>104</sup>
- taxable services; <sup>105</sup>
- admission rights; <sup>106</sup>

In general, the person that buys, consumes, uses, or warehouses for use or consumption a taxable item is the one responsible for the payment of the sales and use tax. However, if the transaction is subject to the sales and use tax and the merchant is required to collect said tax from the buyer as a withholding agent, the merchant is responsible for the payment of the sales and use tax. If the merchant does not meet the obligation of collecting the sales and use tax from the buyer, the Treasury Department may collect the sales and use tax from either the merchant or the buyer.

Every merchant must file a Monthly Sales and Use Tax Return on or before the 10th day of the following month in which the tax is collected.

The law provides an exemption from the SUT to the resellers on every taxable item acquired for resale and to manufacturing plants on raw material and machinery and equipment for use in the manufacturing process. In order to claim this exemption, the merchant has to request the Certificate of Exemption to the Secretary of the Treasury.

Merchants subject to the Act must keep the following for a period of no less than six years: (i) accounting records; (ii) papers; (iii) documents; (iv) invoices; (v) commercial receipts; (vi) canceled checks; (v) payment receipts; (vi) certificates of exemptions; (vii) shipping documents; (viii) evidence of the taxable items received, used, and sold; (viii) collection records; and (ix) any other evidence related to the sales and the amount of the sales tax withheld and paid to the Secretary of Treasury.

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<sup>103</sup> 13 L.P.R.A. §§ 9091-9098.

<sup>104</sup> Excluded from the term "taxable personal property" and thus excluded from the sales and use tax are those items that are subject to the excise tax. Some other articles or transactions are exempt from the sale or use tax as well, including: (a) certain types of foods and medicines, (b) articles sold for use and consumption outside of Puerto Rico, (c) articles in transit, (d) raw materials, machinery and equipment used in the manufacturing process by a manufacturing plant, (e) taxable items sold in specially licensed stores located at air and maritime terminals to persons leaving Puerto Rico, (f) personal possessions moved to Puerto Rico as a result of a change of residence by a nonresident of Puerto Rico or by a member of the armed services of the United States or the Commonwealth of Puerto Rico who has been officially transferred to render services in Puerto Rico, (g) purchases of items to be resold by a merchant reseller, (h) the admissions rights to athletic events sponsored by public or private schools, colleges, and universities, (i) funeral services up to \$4,000, (j) promotional material delivered free of charge by an exhibitor, promoter, meeting or congress planner to a participant in a convention, trade show, forum, meeting, incentives trip, or congress, (k) items and equipment specifically designed to compensate for physical or physiological deficiencies of disabled persons, and (l) money, cash equivalents, stocks, bonds, notes, notes payable, mortgages, insurance, securities, and other obligations, among others.

<sup>105</sup> The following services are not included in the definition of "taxable services" and are thus excluded from the scope of the sales and use tax: (a) services that are rendered to a person that is engaged in an industrial or commercial activity, business activity, or any other activity for production of income; (b) services of agronomists, architects, attorneys at law, certified public accountants, real estate brokers, sellers of real estate and real estate businesses, professional draft persons, professional appraisers of real estate, geologists, engineers, and surveyors; (c) services rendered by the Commonwealth of Puerto Rico, its instrumentalities and its municipalities; (d) educational services, provided that such services consist of courses and classes rendered by entities regulated by the Council of General Education or the Council of Advanced Education, courses and tutorial classes rendered by teachers certified by the Department of Education of Puerto Rico, and courses of continued education offered by colleges and professional associations; (e) interest and other charges for the use of money and the services offered by financial institutions; (f) insurance services and commissions; (g) health and hospital services; and (h) services rendered by persons with a volume of business of \$50,000 or less.

<sup>106</sup> Excluded from the term "admission rights" is the right to use collective transportation services such as the systems offered by the Metropolitan Bus Authority, the Ports Authority, the Transportation and Public Works Department or by an operator or subcontractor thereof, and persons certified by the Commonwealth of Puerto Rico, its agencies or instrumentalities to provide those services. Also excluded from "admission rights" are the ticketing and box office services.



Merchants that use the accrual method of accounting may claim a sales tax credit for the sales tax paid on sales that resulted in bad debts. Said credit may be taken in the monthly return after the month in which the account became a bad debt.

### **T. Gift Tax <sup>107</sup>**

The Puerto Rico gift tax will be imposed based on the fair market value of the property donated less any obligation assumed by the donee as a result of accepting the gift. There are five allowable deductions that are based on the property donated and/or on the identity of the donee and/or the donor:

- the value of gifts made by a resident of Puerto Rico of property located in Puerto Rico;
- up to a \$1,000 value of gifts made to a disabled child;
- the value of gifts for the education or training of an individual;
- the value of gifts to provide medical care to an individual; and
- the value of certain qualified charitable gifts.

The donor is the person primarily liable for the payment of Puerto Rico gift tax. However, the recipient may also be held personally liable up to the value of the property received as a result of such gift.

For donors residing in Puerto Rico, the Puerto Rico gift tax is applicable to gifts of property located anywhere in the world. For donors not residing in Puerto Rico, the Puerto Rico gift tax is only applicable with respect to gifts of property located in Puerto Rico.

An exclusion from the total amount of gifts made during a year is available to a donor with respect to the first \$10,000 donated to each donee. If the property being donated is community property, each spouse, separately, may use the \$10,000 exclusion.

The rates of the gift tax and the estate tax are the same, ranging from 18% applicable to taxable gifts up to a maximum rate of 50% for the portion of the value of taxable gifts that exceed \$2.5 million.

The gift tax return is due on or before April 15 of the year following the year of the gift.

The computation of the gift tax is summarized as follows:

The net taxable gift amount for the current year is added to the net taxable gift amounts of prior years to obtain the total taxable gift amount. The corresponding gift tax rate is applied to the total taxable gift amount to determine the tentative gift tax. The gift tax paid to other jurisdictions for gifts made during the current year plus the sum of all Puerto Rico gift taxes paid in prior years is deducted from the tentative gift tax to determine the gift tax liability for that year.

### **U. Estate Tax <sup>108</sup>**

A different formula is used for determining the gift and estate tax of: (1) U.S. citizens who did not acquire their U.S. citizenship by being born or naturalized in Puerto Rico and were residents of Puerto Rico at the time of death, and (2) those individuals who were nonresidents of Puerto Rico at the time of death but had certain property located in Puerto Rico.

<sup>107</sup> 13 L.P.R.A. §§ 9201-9220.

<sup>108</sup> 13 L.P.R.A. §§ 9103-9189.



Under the Puerto Rico Civil Code, the gross estate includes all the property, rights, and obligations of the decedent that are not extinguished by death.

As a general rule, the estate of a decedent that was a resident of Puerto Rico at the time of death includes all the property of such decedent, wherever located. However, the estate of a nonresident alien or person who was a resident of Puerto Rico at the time of death but did not acquire U.S. citizenship solely by reason of being a citizen of Puerto Rico or being born or residing in Puerto Rico, will be taxed only on the part of the estate located in Puerto Rico. In such cases, the estate tax will equal the maximum foreign estate tax credit granted under the U.S. Internal Revenue Code for the portion of the gross estate located in Puerto Rico.

Upon the death of a decedent, an estate tax lien is automatically imposed on all the assets of the decedent. A Release of Estate Tax Lien will not be issued until the estate tax return is filed and all taxes owed by the decedent to the Commonwealth of Puerto Rico (including income taxes) or to its municipalities, have been fully paid. If the outstanding taxes are prescribed, a certificate to that effect must be obtained.

The executor of an estate is the person primarily liable for the payment of the Puerto Rico estate tax. After filing the estate tax return and paying the corresponding estate tax, the executor may ask the Secretary of Treasury that he or she be released from personal liability with respect to the payment of deficiencies. If the Secretary of Treasury does not reply to the request, the executor is released from that liability one year after the date of the filing of the request.

The P.R. Code establishes a limited number of deductions to reduce the gross estate, which depends on the property transferred or the recipient. For example, it is granted a deduction from the gross estate equal to the fair market value of property located in Puerto Rico. As a result of this deduction, most estates in Puerto Rico are exempt from Puerto Rico estate tax.

Also deductible from the gross estate are:

- the fair market value of property that passes from the testator to the surviving spouse by bequest, devise, or inheritance;
- bequests or legacies made to non for profit organizations; and
- if the decedent derived over 50% of his or her net income from agricultural, poultry, and animal husbandry enterprises for three years prior to his or her death, the value of all the property used in such businesses can be deducted from the gross estate.

A number of deductions are allowed based on the liabilities of the decedent or expenses of the estate. Such deductions are summarized as follows:

- outstanding debts of the decedent at the time of death;
- taxes owed by the decedent to the Commonwealth of Puerto Rico at the time of death;
- the amount of the mortgage if the mortgaged property was included in the gross estate;
- funeral expenses up to a maximum of \$4,000;
- accidental losses caused by fires, earthquakes, or hurricanes taking place within nine months following the decedent's death and not compensated by insurance or otherwise; and
- total fees paid to lawyers, accountants, appraisers, surveyors, partitioners, and executors actually incurred until the day of the filing of the estate tax return up to a maximum amount determined by a predetermined formula.



Residents of Puerto Rico are permitted a \$400,000 deduction. However, this deduction will be reduced by the amount of the deduction allowed for property located in Puerto Rico. Hence, if the value of the property located in Puerto Rico is equal to or exceeds \$400,000, the fixed exemption will be completely eliminated.

The rates of the estate tax are the same, ranging from 18% applicable to taxable estates with a fair market value of \$10,000 or less, up to a maximum rate of 50% for the portion of the value of taxable estates that exceed \$2.5 million.

The estate tax return is due on or before 270 days after the decedent's death.

## **V. Payroll Taxes <sup>109</sup>**

### ***(1) Puerto Rico Income Tax Withholding***

Under the P.R. Code, the employer is required to withhold income tax at source upon the salaries and wages paid to its employees performing services in Puerto Rico.

The withholding rates depend upon the personal exemption and credits for dependents claimed in the withholding exemption certificate to be completed by every employee. The Secretary of the Treasury has issued tables for the determination of the tax to be withheld included in an instruction manual.

There is no wage limitation for the withholding. Every employer having one or more employees should withhold the tax.

The date for depositing the amount withheld will depend on the classification of the employer as: (i) a monthly depositor; (ii) a biweekly depositor; or (iii) a next-day depositor. A monthly depositor is an employer that, during the base period, withheld Puerto Rico income tax of \$50,000 or less on the wages of its employees. Such an employer must deposit the amount withheld on or before the fifteenth day of the month following the withholding.

A biweekly depositor is an employer that, during the base period, withheld Puerto Rico income tax of more than \$50,000 on the wages of its employees. Such an employer must deposit the amount withheld as follows: (i) if the payment of the salary or wage was made on a Wednesday, Thursday or Friday, the deposit must be made not later than the following Wednesday; and (ii) if the payment of the salary or wage was made on a Saturday, Sunday, Monday, or Tuesday, the deposit must be made no later than the following Friday.

A next-day depositor is an employer that on any day within a deposit period accumulates \$100,000 or more of Puerto Rico income tax withheld on the salaries and wages of its employees. Such an employer must deposit the amount withheld on the next banking day. From that day onwards such an employer will be considered to be a biweekly depositor.

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<sup>109</sup> 13 L.P.R.A. § 8541.



## **(2) FICA Tax <sup>110</sup>**

The provisions of the United States Federal Insurance Contributions Act of 1935 (FICA) apply in Puerto Rico. Under this act, both employers and employees are required to contribute to the Social Security Fund that was established to provide retirement benefits for all workers. For the year 2009 the tax rate is 7.65% for employer and 7.65% for employee. Each percentage is comprised of 6.2% for social security and 1.45% for hospital insurance. Self-employed individuals are subject to the total 15.3% tax rate on net earnings from carrying on a trade or business.

The Social Security Tax is computed on the first \$106,800 of wages received and the Medicare tax is computed on the total wages, without ceiling.

The quarterly return of combined employer and employeesocial security taxes is due on April 30, July 31, October 31 and January 31. The return along with the payment should be filed with the Internal Revenue Service.

The employer must give the employee two copies of Form W-2PR on or before January 31, following the end of the calendar year in which the tax was withheld.

Employers must determine how frequently they should deposit the social security taxes every year. Which category an employer is in for a calendar year will be dictated by the amount of employment taxes reported for a one year look back period ending the preceding June 30<sup>th</sup>. The different categories for deposit are the following:

- monthly depositors: \$50,000 or less;
- semi-weekly: more than \$50,000;
- one-day depositor: taxes of \$100,000 or more during a deposit period; and
- quarterly deposit: \$2,500 or less on any quarter.

## **(3) Puerto Rico Unemployment Tax <sup>111</sup>**

Each employer pays this tax on the first \$7,000 of annual wages paid, based on an experience rating system. In addition, every employer must pay a special tax of 1% of all taxable wages. However, the special tax together with the experience-based tax would not exceed 5.4% and may be credited against the Federal Unemployment tax mentioned below.

The tax must be paid on or before the last day of the month following each calendar quarter along with the quarterly return. The Puerto Rico Department of Labor requires every employer hiring 25 employees or more to file the quarterly payroll tax forms electronically.

## **(4) Federal Unemployment Tax <sup>112</sup>**

The Federal Unemployment Tax Act (FUTA) provisions apply in Puerto Rico as well as in the United States. The tax is imposed on persons who employ one or more individuals for a portion of a day in each of 20 weeks in the current or preceding calendar year, or who pay in the aggregate \$1,500 or more of wages in a calendar quarter of the current or preceding calendar year.

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<sup>110</sup> 26 U.S.C §§ 3101-3128.

<sup>111</sup> 29 L.P.R.A. § 708.

<sup>112</sup> 26 U.S.C. §§ 3301-3311.



The tax must be deposited on or before the last day of the month following each calendar quarter if the tax exceeds \$500. An annual return must be filed on or before January 31.

The FUTA tax rate for 2008 is 6.2% (0.8% after a credit of 5.4% for the Puerto Rico unemployment tax) on the first \$7,000 of wages paid to an employee each calendar year. The tax is deposited quarterly. Any excess is deposited with the last quarterly installment along with the annual return Form 940-PR due on January 31.

No deposit is required if the tax is \$500 or less. The amount must be added to the tax for the next quarter. Then, in the next quarter, if the total non-deposited tax is more than \$500, it must be deposited. If the liability for the fourth quarter (plus any non-deposited amount from any earlier quarter) is over \$500, the entire amount must be deposited by the due date of the annual return (January 31).

#### **(5) Disability Benefits Tax <sup>113</sup>**

The Disability Benefit Act provides benefit payments to employed workers who suffer the loss of wages as a result of disability due to illness or accident not connected with employment.. This Act provides a tax of 0.60% on the first \$9,000 of wages paid during the calendar year by an employer to an employee. Both the employer and employee share the tax imposed evenly (the employer is liable for 0.3% and the employee for the other 0.3%).

Employers must pay the full amount of the disability benefits tax on or before the last day of the month following each calendar quarter. Payment must be accompanied with the quarterly return. Thus, the filing of the quarterly return and the corresponding payment are due on April 30, July 31, October 31, and January 31.

#### **(6) State Insurance Fund Corporation (FSE) <sup>114</sup>**

The Workmen's Accident Compensation Act establishes a compulsory insurance program covering employees who suffer injury, become disabled or lose their lives due to a job related accident or function. The rate varies according to the type of labor performed by the employee. Rates are revised every year, and the tax is entirely borne by the employer.

By July 20 of each year, every employer must file a payroll statement showing the number of employees, occupation or industry classification and the respective total amount of wages paid during the immediately preceding fiscal year ending June 30. At the end of each fiscal year the Manager of the Fund compares the payroll reported with that of the preceding fiscal year, upon which the current year's premium is based. The premium is then adjusted accordingly.

All employees are legally required to be covered under workmen's compensation insurance. If an employer fails to pay the workmen's compensation insurance premium, that employer will not be covered for the corresponding period and will continue to be liable for such premiums and for the corresponding penalties for late payment. In such cases, employees suffering an accident may still benefit from the services offered by the State Insurance Fund as if the employer had been up to date in its payments. However, in those cases the State Insurance Fund will collect from the uninsured employer all the costs and expenses incurred in relation to the injured employee.

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<sup>113</sup> 11 L.P.R.A. §§ 201-212.

<sup>114</sup> 11 L.P.R.A. §§ 1-42.



### **(7) Chauffeur's Insurance <sup>115</sup>**

The purpose of the chauffeur's tax is to provide insured workers with sickness and disability pensions, a bonus to the insured after reaching the age of 65, and compensation to surviving spouses and children under 15 years of age, in the event of the death of the insured. The sickness, disability or death need not be work-related. No sickness pension is paid if the case is compensated under the State Insurance Fund.

However, if the State Insurance Fund compensation is less than the worker would receive under the Chauffeurs' Insurance Fund, the difference will be paid by the Chauffeurs' Insurance Fund.

If the employer hires non-executive employees who are required or permitted to operate motor vehicles as part of their responsibilities, Chauffeur's Insurance must be paid instead of the Puerto Rico Disability Benefits Tax. Employers pay a tax of 30 cents weekly for each covered employee, who pays 50 cents weekly. The total is withheld by the employer from the covered employees compensation and is remitted with the quarterly return no later than fifteen days after the last day of each calendar quarter.

The Puerto Rico Department of Labor requires every employer hiring 25 employees or more to file the quarterly payroll tax forms electronically.

## **W. Other Taxes**

### **(1) Alcoholic Beverages Tax <sup>116</sup>**

Distillers, rectifiers, producers, manufacturers, and importers are generally taxed on distilled spirits, wines with 24% or less alcohol content by volume, imported champagne and sparkling or carbonated wines or imitations thereof, and beer, ale, porter, malt extract, and other similar fermented or unfermented products. If wines, champagne, and sparkling carbonated wines or imitations thereof have more than 24% alcohol content by volume, they are considered distilled spirits. The tax is imposed on a per-wine gallon or a per-proof gallon.

Alcoholic beverage tax rates range from \$0.97 per-wine gallon up to \$31.29 per-proof gallon for the various classifications of distilled spirits, wines, champagne and sparkling wines.

### **(2) Construction Tax <sup>117</sup>**

The Autonomous Municipalities Act of Puerto Rico grants the municipalities the power to impose and collect construction taxes within the territorial limits of the municipality. The construction tax rate varies from municipality to municipality but is generally around 4% or 5% of the cost of the project. The cost of the project for work performed outside Puerto Rico is not subject to the construction tax.

Specifically exempted from the construction tax are: (i) projects of nonprofit associations that provide affordable housing to moderate or low-income families that qualify under the National Affordable Housing Act; (ii) projects of nonprofit associations that provide affordable housing for persons 62 years or older that qualify under the National Affordable Housing Act; (iii) projects for the construction or rehabilitation of affordable housing qualifying under the New Housing Operation Public and Private Co-Partnership Program; (iv) projects

<sup>115</sup> 29 L.P.R.A. §§ 681-695.

<sup>116</sup> 13 L.P.R.A. §§ 9521-9526.

<sup>117</sup> 21 L.P.R.A. § 4057.



for the construction of real property for leasing to moderate income families;(v) projects for the expansion of buildings that promote, under the industrial incentives laws, the increase of employment and for which the tax exemption decree is still in effect; and (vi) construction projects carried out under the management of an agency of the central government, or its instrumentalities, a public corporation, a municipality or an agency of the federal government. This last exemption is not applicable to construction projects carried out by a person acting on behalf of, or by contract or subcontract executed with an agency or instrumentality of the central government, municipal government, or an agency of the federal government.

There are also exemptions for medical facilities.

### **(3) Occupancy Tax <sup>118</sup>**

The room occupancy tax is 9% on the rates charged per furnished room in any building used for the rental of rooms to guests on a daily, weekly, or fractional basis, or for a global all-inclusive service. If the building facility or facilities include a duly authorized casino, the room occupancy tax is 11% of the rates charged per room. However, if the facility is authorized by the Puerto Rico Tourism Company to operate as a Puerto Rico inn (*parador*), the tax rate is 7%. Motels are subject to a 9% room tax if the daily rate exceeds \$5.00 a day. Facilities that operate as all-inclusive hotels are subject to a room tax equal to 5% on the total amount charged per day. Short-term supplementary lodgings that do not qualify as a hotel, condo-hotel, all-inclusive hotel, motel, Puerto Rico inn (*parador*), small inn, guest house, or apartment hotel, but are dedicated to the rental of rooms for fewer than 90 successive days, are subject to a 7% tax. These short-term supplementary lodgings may include houses, apartments, cabins, and villas.

The room tax is to be paid on the tenth day of the month following the month in which it was collected. A monthly return must accompany the tax.

Some municipalities have approved municipal ordinances imposing a tax on the guests of hotels, motels, guesthouses, *paradores* and inns for the rooms that they rent thereat. The Municipality of Vieques has approved a Municipal Ordinance imposing a municipal occupancy tax in that municipality.

## **X. Special Tax Treatment Entities**

### **(1) Special Partnership <sup>119</sup>**

A Special Partnership is a partnership or corporation, that meets certain requirements and has elected not to pay any income tax on its income but, instead, to have the partners pay the tax on it, even though the corresponding income is not distributed. Although the eligibility of a partnership for special treatment depends on the nature of the partnership's income, it is the partner who is taxed on the ratable portion of the income as if he had carried on the business activity.

A Special Partnership computes its gross income and deductions, to arrive at taxable income, in the same manner a regular partnership or corporation would, with certain exceptions. One exception is that special partnerships are not allowed a deduction for carryover net operating losses. This is so because every year the partners pick up their share of income or loss in their income tax returns.

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<sup>118</sup> 13 L.P.R.A. § 2271(o).

<sup>119</sup> 13 L.P.R.A. §§ 8630-8658.



In addition, all accumulated earnings and profits of an electing special partnership are deemed distributed during the first two years of the election and are generally subject to the 10% special tax on eligible distributions.

Also, a corporation (or partnership) before making the election may be subject to a built-in gains tax at the corporate level during the ten-year period beginning on the first day of the corporation's first tax year as a corporation of individuals.

### ***(2) Corporation of Individuals*** <sup>120</sup>

Like special partnerships, a corporation of individuals allows the flow through of income and losses to the owners, eliminating the double taxation of income. The income, deductions, gains, losses, and credits flow through to its shareholders with the same characteristics as if in the hands of the corporation.

An electing corporation (or partnership) that used the LIFO inventory method, flexible or accelerated method of depreciation, long-term completed contract, or installment sales method for the tax year prior to the election to be treated as a corporation of individuals is made must recapture as income these items in the last year before the election is made. The increase in tax resulting from the recapture is payable with the final income tax return of the regular corporation (or partnership), except for the tax resulting from the LIFO recapture which is payable in three equal installments over three taxable years. The first installment is payable with the final return of the regular corporation (or partnership).

In addition, all accumulated earnings and profits of an electing corporation are deemed distributed during the first two years of the election and are generally subject to the 10% special tax on eligible distributions.

Also, a corporation (or partnership) before making the election may be subject to a built-in gains tax at the corporate level during the ten-year period beginning on the first day of the corporation's first tax year as a corporation of individuals.

### ***(3) Cooperatives***

In general, most cooperatives enjoy exemption from paying income, property and use, excise taxes, municipal license taxes, among others.

### ***(4) Public Private Partnerships*** <sup>121</sup>

The Contractors in a Partnership shall be subject to a fixed income tax rate of ten percent (10%) over the net income derived from the operations provided in the Partnership Contract. Said special rate shall not apply nor shall it in any way alter the taxes levied by the P.R. Code related to foreign taxpayers. Neither shall it be subject to the surtax provided in Act No. 7 of March 9, 2009. Participants are exempted of paying tax on personal property. A contractor under a Partnership Contract may not receive tax benefits provided for under the Economic Incentives Act for the Development of Puerto Rico, Act No. 73 of May 28, 2008. If a Contractor decides to operate as a Special Partnership (as described in Subchapter K of the Puerto Rico Internal Revenue Code), the shareholder of a special contracting partnership shall be subject to a fixed income tax rate of twenty percent (20%) on the net income derived from the operations agreed to in the Partnership Contract. The participation of a nonprofit corporation in a Partnership Contract shall not affect its eligibility for the purpose of availing itself of the benefits of the Puerto Rico Code provided for the type of particular entity or organization in question.

<sup>120</sup> 13 L.P.R.A. §§ 8680-8689.

<sup>121</sup> 27 L.P.R.A. §§ 2601-2623.



### **(5) Registered Investment Companies <sup>122</sup>**

The net income of registered investment companies is computed using the following rules:

- Gross income includes all dividend and profit distributions received from corporations or partnerships that are exempt organizations or tax-exempt entities operating under the Puerto Rico Industrial Incentives Act of 1948 or any other tax exemption law of Puerto Rico.
- Capital gains and losses are disregarded.
- Net operating losses are disregarded.
- The requirement that net income for a short period on account of a change in the accounting period be annualized is disregarded.

The flexible depreciation and accelerated depreciation methods are not available.

The net income of a registered investment company, computed in the manner described above, is taxed at regular Puerto Rico corporate income tax rates. However, if the registered investment company distributes during the year, as a taxable dividend and/or as a dividend from industrial development income (IDI), an amount equal to at least 90% of its net income for the taxable year, it will be exempt from Puerto Rico income tax. A taxable dividend is a dividend made out of current or accumulated earnings and profits that does not qualify as an exempt dividend, a dividend from Industrial Development Income, or a capital gain dividend.

Registered investment companies are only subject to the municipal license tax on their undistributed net taxable income. This is an exception to the general rule of imposing the municipal license tax on the gross revenue.

The shareholders of a registered investment company residing in Puerto Rico must include in their gross income dividends that qualify as: (i) capital gain dividends; (ii) dividends from Industrial Development Income, but only to the extent that such dividends would have been taxable if received directly by the shareholders; and (iii) taxable dividends.

Capital gains dividends will be taxed in the hands of the shareholders as a gain from the sale or exchange of a capital asset held for more than six months. This means that long-term capital gain treatment will be granted to shareholders with respect to capital gains dividends received even if the transaction at the registered investment company level was a short-term capital gain.

Shareholders of a registered investment company that are nonresidents of Puerto Rico are subject to the withholding requirements of P.R. Code relating to withholding from nonresident individuals and non-Puerto Rico corporations not engaged in business in Puerto Rico. Under these provisions, dividend distributions out of earnings derived from sources within Puerto Rico will be generally subject to a 10% withholding. All dividends paid during the taxable year by a registered investment company to a nonresident shareholder are subject to withholding, except exempt dividends. The amount of taxable dividends subject to withholding is to be increased by the shareholder's pro rata portion of the U.S. or foreign income, war profits and excess profit taxes paid on the profits on which such taxes are deemed to have been paid by the registered investment company or by any of its subsidiaries owned 90% or more by the registered investment company.

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<sup>122</sup> 13 L.P.R.A. § 8659.



#### **(6) Not for Profit Corporations**

A corporation organized as a nonprofit corporation is not automatically exempt from Puerto Rico income, property, or municipal license taxes. It must qualify as such under the law and request a determination as to its tax-exempt status from the Treasury Department.

#### **(7) Insurance Companies <sup>123</sup>**

##### **(a) Domestic Life Insurance**

A life insurance company is an insurance company engaged in the business of issuing life insurance policies and annuity contracts (including combined contracts of life, health and accident insurance) whose reserves with respect therewith comprise more than one-half of its total reserves.

The gross income of a domestic life insurance company includes only certain gains realized on the sale of property. The net income is the gross income less the expenses directly related to the production and making of that gross income.

A domestic life insurance company is taxed on its net income and surtax net income at the same rates as corporations in general. In addition, a life insurance company is subject to a special tax of .10% over the total assets as of the close of its taxable year, in the separate accounts maintained and established under the provisions of the Insurance Code of Puerto Rico. The tax for any taxable year is reported and must be paid by the due date for the filing of the corresponding income tax return for the year.

##### **(b) Foreign Life Insurance**

A foreign life insurance company is also taxed on its net income and surtax net income at the same rates as corporations in general. The income subject to tax, however, is computed very differently from that of the domestic life insurance company. It may be subject to the special tax on separate accounts. It is also subject to the branch profits tax provisions that apply to foreign corporations and partnerships.

The net income and surtax net income subject to the corresponding tax rates of a foreign life insurance company is the commensurate part of the taxable income of the company as determined under the U.S. Internal Revenue Code which the sum of the direct premiums for life, accident, health and annuity contracts assigned to Puerto Rico bears to the sum of all direct life, accident, health and annuity contracts, as these are reported to the Insurance Commissioner of Puerto Rico.

##### **(c) Mutual Insurance Companies Other Than Life**

The gross income of mutual insurance companies other than life consists of all their income resulting from the operation of the business and from all other sources. This includes the gross premiums collected and received by them, less amounts paid for reinsurance, investment income, profits from the sale of assets, and all gains, profits and income reported to the Insurance Commissioner. In addition to deductions generally allowed corporations, additional deductions are allowed for net reserve additions and payments (other than dividends) made on policy and annuity contracts.

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<sup>123</sup> 13 L.P.R.A. §§ 8591-8602.



**(d) International Insurer** <sup>124</sup>

An international insurer is exempt from income tax. Also exempt from income tax is the income of the international insurer's holding company, if it meets the requirements of the Insurance Code of Puerto Rico.

**(8) Real Estate Investment Trusts (REIT)** <sup>125</sup>

A REIT is exempt from Puerto Rico income tax if it meets all the requirements for qualifying as a REIT for Puerto Rico tax purposes and during the year distributes to its beneficiaries 90% of its taxable income and 90% of its exempt income.

A REIT has the option of making distributions after the end of the taxable year but before the due date for the filing of the income tax return and electing to have such distributions regarded as distributed in the previous taxable year. To make this election, the REIT must accompany its tax return with a sworn statement, signed by the secretary of the trust or a person authorized by the Board of Directors of the trust or its equivalent, establishing that it is making the election and including the information as to the amount of dividends distributed and the dates of distribution.

A taxable dividend is a dividend distributed out of the retained or accumulated earnings of the REIT. Exempt dividends are dividends distributed out of amounts of income excluded from gross income under the P.R. Code. An exempt dividend must be designated as such in writing by the REIT and its beneficiaries must be notified of it by mail not later than 60 days after the end of the taxable year or on the dividend declaration date, whichever is later.

In computing the net taxable income of a REIT, the following adjustments must be made:

- No deduction is allowed for net operating losses;
- No deduction is allowed under the flexible depreciation rules or the accelerated depreciation rules; and
- If there is a change in the accounting period of the REIT, the resulting short year may not be annualized in the manner otherwise required under the law.

A penalty tax is imposed on the gain derived from a prohibited transaction. A prohibited transaction is a sale or disposition of: stock in trade; property that would be properly included in inventory; and property held primarily for the sale to customers in the ordinary course of business. This tax is equal to 100% of the net income derived from the prohibited transaction. Some exceptions may apply.

The beneficiaries of a REIT are subject to a 10% tax on the taxable dividends received from it. No tax is imposed on distributions of exempt dividends. The management of the REIT must withhold 10% of the distributed taxable dividends.

A REIT or any corporation, special partnership, LLC, partnership or any other legal entity wholly owned, directly or indirectly, by a REIT may benefit from the provisions of the Puerto Rico Tourist Development Act of 1993, as amended, except in relation to the exemption from income tax.

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<sup>124</sup> International Insurance provisions are contained in 26 L.P.R.A. §§ 4301.

<sup>125</sup> 13 L.P.R.A. §§ 8701-8725.



A U.S. REIT will be treated as a REIT for Puerto Rico tax purposes only after all the above requirements have been met. A U.S. REIT that qualifies for treatment as a REIT in Puerto Rico must file the corresponding Puerto Rico income tax return and any other returns and reports required by law.

**(9) International Banking Entities (IBE) <sup>126</sup>**

An IBE and the distribution of its earnings are generally exempt from Puerto Rico taxes. However, the excess net income of taxable international banking entities is subject to the regular income tax rates applicable to corporations and partnerships.

The net income of the bank must be determined under the provisions of the Puerto Rico Internal Revenue Code. The term “excess net income” means the amount of net income in excess of 20% of the total net income derived during the taxable year by the bank of which the international banking entity is a unit. The net income must be determined under the provisions of the Puerto Rico Internal Revenue Code.

IBEs are also exempt from Puerto Rico property taxes and municipal license taxes.

**(10) Employee-Owned Special Corporation <sup>127</sup>**

The net income of a special employee-owned corporation (SEOC) is determined in the same way as that of a regular corporation, except:

- There is no deduction for net operating loss;
- There is no deduction for foreign income taxes;
- There is no controlled corporation dividend received credit;
- Deductions for charitable contributions are not allowed; and
- Flexible depreciation is allowed.

In addition, the organizational expenses and expenses incurred by an SEOC to promote the sale of its membership shares may be deducted as ordinary and necessary expenses.

The accounting method elected by the SEOC must be the same accounting method used by its regular and special members. However, an SEOC may elect to use a taxable year different from the one used by its regular and special members.

The following items are excluded from the gross income of an SEOC and are exempt from Puerto Rico income taxation:

- The income credited to the collective reserve account and to the social account; and
- The income credited in the corresponding internal capital accounts of the regular and/or special members that is capitalized.

An additional incentive is offered to SEOCs that create new jobs. If the SEOC creates from three to five new jobs during the year, a 15% additional deduction based on the annual payroll or income advances is granted. If the SEOC creates from six to 10 new jobs during the year, a 20% additional deduction based on the annual payroll or income advances is granted. If the SEOC creates 11 or more new jobs during the year, a 25% additional deduction based on the annual payroll or income advances is granted.

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<sup>126</sup> 7 L.P.R.A. §§ 232-232x  
<sup>127</sup> 13 L.P.R.A. §§ 8660-8679.



If the SEOC is engaged in manufacturing, is not operating under a grant of industrial tax exemption, has taxable income exceeding \$200,000, and has maintained an average employment or working position for ordinary members of 20 or more persons during the taxable year, it may take an additional flat deduction of \$40,000.

An SEOC engaged in manufacturing that does not operate under a grant of tax exemption and that during the taxable year derives a total net income of less than \$20,000 per manufacturing job or working position for ordinary production members may opt, instead of the flat \$40,000 deduction, to take a deduction equal to 15% of the payroll or total advance production income up to a maximum of 50% of the credit notices for productivity and patronage distributed to regular and special members.

Regular and special members of an SEOC are entitled to a tax credit equal to 25% of the amount paid for the certificate of membership, up to a maximum of \$1,000. The credit is taken against the income tax for the year in which the payment for acquiring the membership certificate was made. However, if the credit exceeds the amount of income tax for that year, the credit may be carried over up to the next two years.

Regular and special members are subject to Puerto Rico income tax at regular rates on the corresponding share of the credit notices for productivity or patronage distributed to such members. However, the character of the items included in the taxable distributive share of a regular or special member are generally determined as if such items were realized directly by the corresponding member.

Any interest paid on the unpaid credit notices in the internal capital accounts of each of the regular or special members is fully exempt from Puerto Rico income tax.

## **Y. Special Tax Treatment Zones**

### ***(1) Free Trade Zones*** <sup>128</sup>

Puerto Rico is within the customs jurisdiction of the United States. Therefore, imports into Puerto Rico from foreign countries are subject to applicable duties under corresponding U.S. customs and imports laws.

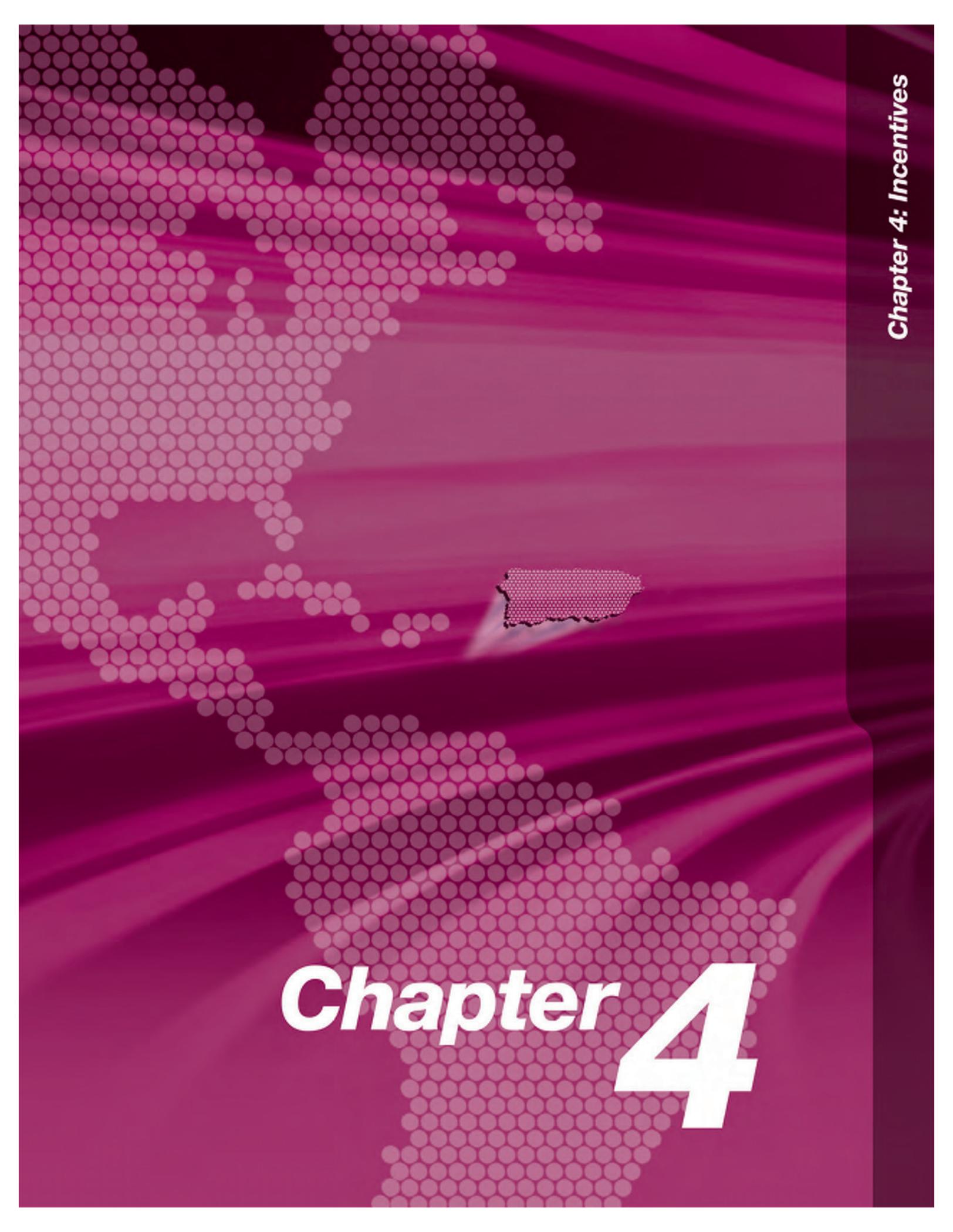
U.S. customs laws provide for the establishment of free trade zones. There are four free trade zones (FTZ) in Puerto Rico: (1) FTZ No. 61 located in the metropolitan area near the San Juan port facilities; (2) FTZ No. 163 located near the port facilities in Ponce; (3) FTZ No. 7 located in Mayagüez; and (4) Sub-zones located throughout the island in certain PRIDCO industrial parks.

### ***(2) Bonded Warehouse*** <sup>129</sup>

Articles deposited in a bonded warehouse during the period of time they remain deposited are considered as exempted from the excise tax.

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<sup>128</sup> <http://fa.ita.doc.gov/ftzpage/letters/ftzlist.html>.  
<sup>129</sup> 13 L.P.R.A. §§ 9001-9084.



**Chapter 4**



# Chapter 4

## Chapter 4: Incentives

### 1. Business, Manufacturing and Services

Puerto Rico has long been a destination for investment for industry, although the focus has shifted in recent years from heavy and labor-intensive manufacturing to high-technology, high-value-added, and services-oriented enterprises. The Puerto Rico Industrial Development Company is the primary government agency charged with promoting industry, and it is especially focused on attracting and developing high-technology enterprises like biosciences, information technology, and professional services.

#### A. The Economic Incentives for the Development of Puerto Rico Act (Act 73)

The Economic Incentives for the Development of Puerto Rico Act provides attractive tax and other incentives to foster investment in key sectors of Puerto Rico's economy.

##### **(1) Eligible Businesses**

"Eligible businesses" can apply to qualify for incentives under Act 73. In general terms, eligible businesses include: businesses established to manufacture products on a commercial scale; businesses established to render services on a commercial scale for foreign markets or for other eligible businesses in Puerto Rico; and businesses established to engage in a wide range of specific economic activities, such as scientific research and development, the generation of renewable power, recycling, hydroponics, value added activities pertaining to port operations, software development, manufacture of renewable energy equipment, and others. In some cases, there are other criteria that must be met, but generally a wide range of economic activities will qualify as an eligible business under the Act.

##### **(2) Application for a Decree**

Act 73 operates through a tax decree—issued for a period of 15 years—that the government of Puerto Rico grants to approved eligible businesses. The decree identifies and ensures the incentives to which the eligible businesses are entitled. To obtain a decree, an eligible business must submit an application, with all required supporting materials and fees, to the Office of Industrial Tax Exemption. Once the application is duly filed, the decree should be granted or denied within 70 days.

##### **(3) Standard Incentives**

Approved eligible businesses qualify for the following benefits:

###### **(a) Income Tax Rates**

- Typically, eligible businesses are subject to a 4% income tax rate and a 12% withholding tax rate on royalties. Alternatively, with approval from the Secretary of Economic Development, an eligible business may be subject to a 8% income tax rate coupled with a 2% withholding tax rate on royalties.
- An eligible business engaged in a Novel Pioneer Activity—i.e., socially or economically beneficial activities that have not been carried out in Puerto Rico during the previous year—will be subject to a 1% income tax rate.



- Income from economic activities that create or develop intangible property in Puerto Rico will be subject to a 0% tax rate.
- An additional reduction of 0.5% from the fixed 4% tax rate will be available to eligible businesses that are established in a low or intermediate industrial development zone.
- Eligible businesses that locate their operations in Vieques and Culebra shall be totally exempted from the payment of income tax for the first 10 years of their decree, after which they will be subject to a 2% tax rate.

**(b) Withholding Tax Rates on Royalties or License Fees**

- Non-residents not engaged in trade or business in Puerto Rico will be subject to a 12% withholding tax on royalties or license fee payments for the use of intangible property in an eligible business. This rate may be reduced to 2% by the Secretary of Economic Development.

**(c) Investment Income**

- Eligible businesses are not required to pay taxes on income derived from “eligible investments,” which are specified in the Act and typically involve debt and/or equity investments in certain local real estate, business activities, and securities.

**(d) Distributions**

- The stockholders or partners of a corporation or partnership with a decree shall be totally exempted from taxes on the distribution of dividends or profits.
- Gains realized from the sale or exchange of equity shares of an eligible business or of substantially all of the businesses assets, if such sale is executed while the business’s decree is still in force, shall be subject to a 4% tax. After the decree has expired, the tax treatment will be adjusted to limit the benefits to gains generated while the decree was in force.
- No income tax shall be levied on or collected from the transferor or transferee with respect to the complete liquidation of an exempted business.

**(e) Tax Credits**

- An eligible business that purchases products manufactured in Puerto Rico will be permitted to claim a credit of 25% of the purchase cost, up to a maximum of 50% of its tax liability; for products made from recycled materials, the credit shall be equal to 35% of total purchases up to the 50% limit.
- Eligible businesses can receive a tax credit for each job created during the first year of operations. The size of the credit will depend where the exempted businesses are located: in Vieques and Culebra, the credit is \$5,000 per job; in a low industrial development zone, it is \$2,500 per job; and in an intermediate industrial zone, it is \$1,000 per job.
- Eligible businesses can receive a credit, of 50% of the investment, for investments in research and development, clinical trials, toxicology tests, infrastructure, renewable energy, and intangible property.



- Eligible businesses can receive a tax credit, of 50% of the investment, for investments in machinery and equipment for the generation and efficient use of energy. For eligible businesses that invest to generate energy for their own consumption, the credit will be capped at 25% of the businesses income tax. For eligible businesses dedicated to the production and sale of energy in Puerto Rico, the credit will be capped at \$8 million for each eligible business, up to an aggregate maximum of \$20 million for such investments by all eligible businesses per year.
- All eligible businesses that are industrial clients of the Puerto Rico Electric Power Authority can receive a tax credit of 3% of their electricity payments. A higher credit (3.5%) is available for eligible businesses that retain 25 employees or an average payroll of \$500,000 or more during the taxable year.
- Eligible businesses can receive a credit for 12% of all payments made for the use or right to use intangible property in their exempt operation in Puerto Rico.
- Eligible businesses can receive a credit of 50% of the amount of any investment in a “strategic project,” as defined in the Act.
- Investors can receive a credit of 50% (1) of the cash amount used to purchase the majority (50% or more) of the equity interest or operational assets of an exempted business that is in the process of closing operations in Puerto Rico or (2) of the cash amount contributed to a small or medium sized business in exchange for corporate stock or partnership interest used for construction or improvements of the physical facilities and purchase of machinery and equipment.

**(f) Real and Personal Property Tax**

- Eligible businesses shall receive a 90% exemption from municipal and Commonwealth property taxes on personal property used in the businesses’ development, organization, construction, establishment, or operation.
- For the first five years of operations, eligible businesses shall receive a total exemption from the payment of property taxes on real property used for its central or regional corporate headquarters rendering centralized management services to affiliated entities.
- Eligible businesses shall receive a complete exemption from real property taxes during the period authorized under the grant to carry out the construction, expansion, or establishment of the tax-exempt business, and during the first government fiscal year during which the business would have been subject to property taxes.
- Eligible businesses can also take advantage of the benefit afforded by the Optional Self Assessment <sup>130</sup>, as described in the Act for Real Property Taxes. This method may be used exclusively for that property which should be properly considered as real property because of the use and location to which it is destined and that is used in the development, organization, construction, establishment or operation of the exempted business; and that property has not been assessed by the Municipal Property Tax (CRIM).

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<sup>130</sup> Act No. 73 of May 28, 2008; §7(c)(2).



#### **(g) *Municipal License Tax and Other Municipal Taxes***

- Eligible businesses shall enjoy full exemption from municipal taxes or municipal licenses that apply to the volume of their business generated during the quarter of the government fiscal year in which the exempted business commences operations and continuing for the 2 two following semesters.
- Eligible businesses shall be fully exempt from any tax, levy, fee, license, excise, rate or tariff imposed by any municipal ordinance on the construction of works to be used by the exempted business within a municipality (such taxes do not include the municipal license tax levied on the volume of business of contractors or subcontractors of the exempted business).
- Income obtained from investments that qualify shall be totally exempt from municipal licenses, municipal excises, and other municipal taxes.
- Eligible businesses enjoy the following exemptions from municipal licenses, municipal excises and other municipal taxes imposed by any municipal ordinance:
  - Exempted businesses in Vieques and Culebra shall enjoy 90% exemption.
  - Small or medium sized businesses shall enjoy 75% exemption.
  - Central or regional corporate headquarters engaged in rendering centralized management services to affiliated entities shall enjoy 100% exemption during 5 years from the date the exemption begins.
  - Other businesses shall enjoy a 60% exemption.

#### **(h) *Commonwealth Excise Tax and Sales and Use Tax***

The following items directly or indirectly introduced or acquired by an exempted business will be totally exempt from Commonwealth excise and sales and use taxes during the life of the decree:

- raw material (except hydraulic concrete, crude oil, partially manufactured products, finished oil products, and finished products from any other hydrocarbon mixture) to be used in Puerto Rico to manufacture finished products. Raw materials include: any product in its natural form, derived from agriculture or extractive industries; any product, residual product, or partially manufactured or finished product; and sugar by the bushel or in units of fifty (50) pounds or more to be used exclusively in the manufacturing of products;
- machinery and equipment (and accessories thereof) used exclusively in the manufacturing process or in the construction or repair of ships, inside or outside the premises of a manufacturing plant;
- machinery, trucks, or forklifts used exclusively and permanently to transport the raw material within the circuit of the tax-exempt business;
- machinery, equipment, and accessories used to carry out the manufacturing process, or which the tax-exempt business is under the obligation to acquire as required under federal or Commonwealth laws or regulations for the operation of an industrial unit. The exemption shall not cover machinery, devices, equipment, or vehicles used in whole or in part in the administrative or commercial operations of the exempted business, except in those cases in which these are also used in at least 90% in the manufacturing process or in the construction or repair of vessels;
- machinery and equipment that must be used by an exempted business to comply with environmental, safety and health requirements;



- machinery, equipment, parts, and accessories used in experimental or reference laboratories;
- machinery, equipment, parts, and accessories used in the preliminary phase of region exploration geared to the mineralogical development of Puerto Rico, and the dry docks and shipyards for the construction or repair of vessels;
- fuel used by the exempted business covered by this Act in the cogeneration of electric power for its own use or for the use of its affiliates;
- chemicals used by the exempted business in sewage treatment; and
- energy efficient equipment, properly certified by the Energy Affairs Administration.

## **B. Special Incentives<sup>131</sup>**

The following special incentives have been created to encourage the establishment and retention of local and foreign investment in Puerto Rico.

### **(1) Basic Incentive for Job Creation**

Companies that are promoted <sup>132</sup> by PRIDCO, including both local and non-local businesses that meet their commitments related to job creation and retention, receive a basic incentive payment for each employee hired. The incentive is \$400 per employee for new businesses and \$250 per employee for existing business expansions. The company will receive an orientation from PRIDCO and must submit, within a year from the promotion date, certain information for evaluation.

### **(2) Incentive for Job Creation and Location**

In addition to the basic incentive above, companies that are promoted by PRIDCO can receive a location-based incentive for job creation outside of the San Juan metropolitan area. This incentive will be available for local and non-local businesses, and it depends on the geographical location of the company and the quantity of persons that will be employed. The following table depicts the range of the incentive per employee (the incentive will depend on the municipality in which the position is created):

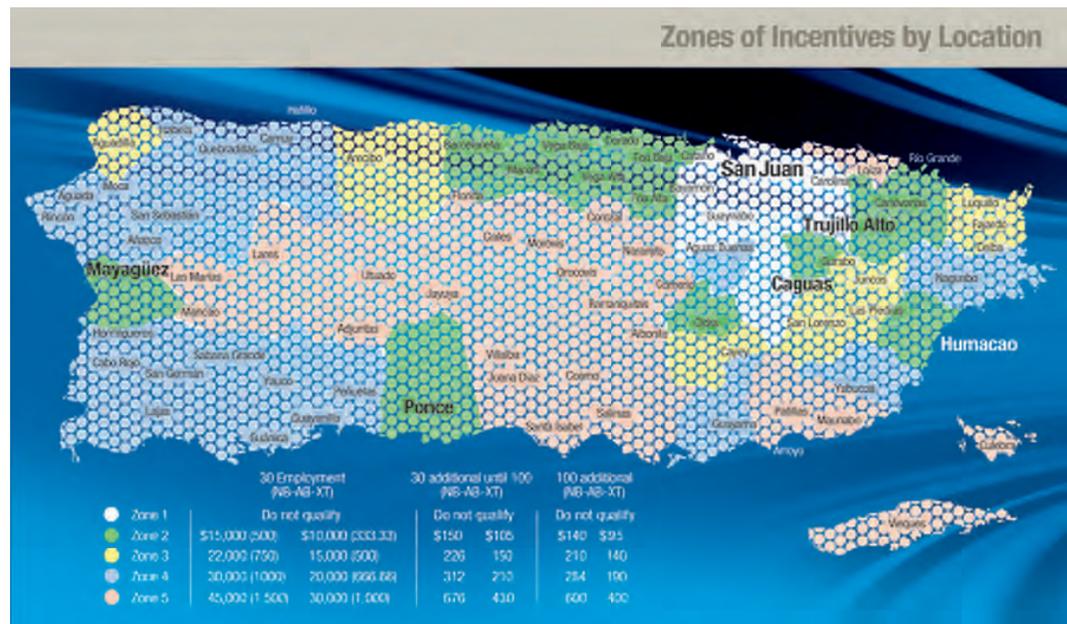
Number of Employees	Incentive (\$/employee)	
	New Business	Additional Business/Expansion
First 30	\$500 - \$1,500	\$333 - \$1,000
Additional - 30 to 100	\$150 - \$676	\$105 - \$430
Additional – 100 and above	\$140 - \$600	\$95 - \$400

<sup>131</sup> All the incentives listed are subject to evaluation. The commitments will be formalized through a contract.

<sup>132</sup> PRIDCO can elect to promote businesses that are engaged in new business, newly added or expanded business, or the rescue of an existing business. Such promotion must be recommended by a promotion team within PRIDCO, endorsed by the Office of Strategic Planning and Economic Analysis, and approved by the Executive Director.



The following map shows the actual amount of the incentive based on the municipality in which the jobs are created:



The company will receive an orientation from PRIDCO and must submit, within a year from the promotion date, certain information for evaluation.

**(3) Special Aid for the Rescue of a Project**

Where a PRIDCO-promoted business intends to cease operations or reduce its workforce by 50% or more, a new owner committed to keeping at least 25% of the employees who are working at the moment of the rescue may be entitled to assistance. The new owner will receive an orientation from PRIDCO and must submit, within six months from the promotion date, certain information for evaluation.

**(4) Incentive for Assisted Projects**

Established companies that are not promoted by PRIDCO, including both local and non-local businesses, may be eligible to receive special aid for creating jobs that are “additional to” the base employment level established by PRIDCO for this company. The company will receive an orientation from PRIDCO and must submit, within a year from the promotion date, certain information for evaluation.



#### ***(5) Incentive for Strategic Projects***

Companies that are promoted by PRIDCO that execute projects that have extraordinary importance for the economy of Puerto Rico—*i.e.*, because they create and maintain a large number or high quality jobs, promote new technology, transfer technology business knowledge, or are otherwise considered highly meritorious by the Executive Director and the Board of Directors of PRIDCO—may be eligible for incentives. The company will receive an orientation from PRIDCO and must submit certain information for evaluation by PRIDCO and approval by PRIDCO's Board of Directors.

#### ***(6) Incentive for Infrastructure Development and Industrial Building Improvements***

Companies that are promoted by PRIDCO may be eligible for an incentive to improve buildings that belong to PRIDCO that are necessary for the companies' operations. As a general rule, the infrastructure incentive is not available for improvements to private buildings unless they can help create and retain jobs, in which case Board of Directors approval is required.

The company will receive an orientation from PRIDCO and must submit certain information for evaluation by PRIDCO, including project drawings, specifications, cost estimates, agency approvals, and any other document required for the installation or construction of the improvements. The application for this incentive must be prepared and certified by a Licensed Engineer or Architect.

#### ***(7) Incentive for the Puerto Rican Industry Manufacturing of Furniture and Related Products, and the Apparel Industry and Similar Products***

This incentive is available for Puerto Rican businesses that have been operating for at least one year in the manufacture of furniture or related products or in the manufacture of apparel or similar products that qualify for the economic incentives provided by the Act No. 8 of 1986. Moreover, this incentive can be granted in addition to other special incentives. Businesses that qualify for the incentive will receive a cash incentive of 3% of eligible sales, up to a maximum amount of \$150,000 per business per year. The incentive can be used to acquire raw materials, machinery or equipment; acquire and/or improve the company's manufacturing facilities; pay production payroll (where the company is not already participating in another reimbursement program); subsidize the lease of buildings housing the manufacturing process; acquire technical assistance, training in new production techniques, administration, promotion, and/or marketing; improve services through computerized equipment; promote the business's services and/or products outside Puerto Rico; make interest payments on loans related to operations; and other purposes established under Act No. 8 1986.

To qualify, a company must apply during July or August and submit all required documentation to PRIDCO. The application will be received and evaluated by the Office of Strategic Planning and Economic Analysis. Once it is determined that the company is eligible, it can request the incentive at the end of each trimester.



#### ***(8) Incentive for Industries located in Vieques and Culebra***

Companies that are promoted by PRIDCO may be eligible for a cash incentive of up to \$100,000 for establishing and operating a business in Vieques or Culebra. The incentive can be used for maritime, land, and aerial transportation of raw materials and finished products, including labor costs, tolls, and other expenses related to transportation, based on an evaluation by PRIDCO. The eligible company may request the incentive at the end of each trimester, after the commencement of operations has been certified, or at the end of the fiscal year, whichever is more convenient. The application must include detailed costs. The commitments will be formalized through a contract.

#### ***(9) Marketing Incentives Program***

This matching fund is available to qualified, local, PRIDCO-promoted companies whose sales are greater than \$100,000 per year and whose commencement of operations has been certified. Through this incentive, PRIDCO will reimburse 50% of the cost incurred, up to \$50,000, for publicity, publications, promotional material, market research, and for special promotional activities. The company must submit the application to PRIDCO for evaluation at least 60 days before the promotional campaign or marketing activity will be carried out.

### **C. Special Fund for Economic Development**

Puerto Rico is focused on attracting research and development to the island. Law 73 established a Special Fund for Economic Development (known as the FEDE for its Spanish initials). This fund can be utilized for the following programs or uses:

- scientific research, development of new industrial products or processes, improvement of existing products or processes in non-profit private educational institutions;
- special incentives for scientific and technical research and the development of new industrial products and processes, improvement of existing products and processes, research and development directed to bio-science, information technology, bio-medicines, agricultural biotechnology, aeronautical engineering and renewable energy, among others;
- industrial incentives program administered by PRIDCO in furtherance of its industrial promotion efforts, including the improvement and development of industrial property;
- the development and establishment of special programs of self-employment or micro-enterprises to integrate persons who are economically straggled to the mainstream of modern socioeconomic development;
- special incentives for the establishment in Puerto Rico of industries of strategic importance to the government, including the investment in venture capital funds that promote this type of industry, upon authorization by the Economic Development Bank;
- special incentives for the acquisition of exempted businesses by their management;
- special incentives for establishing programs to further and promote investment, technology and training of small and medium business;
- financial support to community businesses;
- special incentives for the establishment and development of the Strategic Projects in this Act;



- support for entities or programs dedicated to:
  - furthering the establishment of networks of public Internet access and reduce the digital divide in PR;
  - rendering consulting services in information systems for small or medium businesses;
  - establishing incubation centers that provide a support structure and a proper framework for the establishment and development of new companies through specialized resources;
  - establishing centers and training programs in information and communication systems for unemployed people throughout the island;
  - establishing educational programs at all levels with emphasis on languages, sciences and mathematics.
- support regional initiatives for purposes of development of companies, research and development, establishment of incubators and other related objectives.

Similarly, the Puerto Rico Science, Technology and Research Trust (the Trust)—an autonomous entity that receives funding from the FEDE and the Scientific Research Fund of the University of Puerto Rico among other sources—provides a financing option for research, development, and infrastructure projects in the fields of science and technology. Approximately 30% to 40% of the Trust's annual budget is used to finance corporate activities and projects that impact science and technology research and development in Puerto Rico. Between 30% and 40% is invested in academic projects (to match academic research initiatives), recruiting and retaining scientists, and creating an effective structure to commercialize products. Between 20% and 30% is earmarked for the development of research infrastructure, such as institutes, programs, incubators, and more.

Applications to the FEDE should be submitted to the Executive Director of PRIDCO. The application must be approved by the Board of Directors of PRIDCO.

## 2. Agriculture

Puerto Rico provides incentives to promote the sustainable growth of the island's agriculture sector.

### A. The Agricultural Incentives Law

The Agricultural Incentives Law provides incentives to bona fide farmers and agricultural businesses. To qualify as a bona fide farmer, an applicant must obtain (1) a certification from the Secretary of Agriculture that the applicant is engaged in an agricultural business, as defined by regulation and (2) a determination from the Treasury Secretary that fifty percent (50%) of the applicant's income derives from this agricultural business.<sup>133</sup> To obtain the certification from the Secretary of Agriculture, the applicant must apply through the Department of Agriculture's regional offices, where local agronomists evaluate and, if appropriate, endorse the application. Then, the application is referred to department headquarters for further evaluation, where it is either denied or approved; if it is accepted, a bona fide agriculture certificate is issued to the applicant.

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<sup>133</sup> 13 L.P.R.A. § 10402. The Secretary of Agriculture has established the requirements and procedures by which a new farmer or agribusiness can establish itself as a "bona fide" farmer.



Bona fide farmers qualify for the following tax benefits:

Tax	Percent exemption
Taxes on agricultural equipment <sup>134</sup>	100%
Property taxes on land, buildings, equipment, fixtures, and vehicles owned, leased, or usufruct, which are used intensively in the agricultural business. <sup>135</sup>	100%
Municipal taxes on intensive agricultural activity. <sup>136</sup>	100%
Exemption on stamp payments to Puerto Rico's Treasury Department and fees to register property used in the agricultural business. <sup>137</sup>	100%
Contributions on earnings that derive directly from the agricultural business, if the farmer has not already benefited from the provisions established in Sec. 8423(s) of the Internal Revenue Code of Puerto Rico. <sup>138</sup>	90%
Tax credit for investment in eligible agricultural business. <sup>139</sup>	50%

### B. Annual Bonus for Agricultural Workers <sup>140</sup>

Law 42 of 1971 establishes that the Secretary of Agriculture of the Commonwealth of Puerto Rico will pay an annual bonus to every person who (1) produces agriculture or livestock, (2) maintains a farm or its direct dependencies, or (3) affects the storage, transportation, distribution, and marketing of farm produce.

### C. Wage Subsidy Program to Eligible Farmers, Law 46 of August 5, 1989 <sup>141</sup>

Law 46 of 1989 subsidizes certain farm wages. Under this law, a farmer<sup>142</sup> initially has to pay farm employees the required wages from his own pocket. The Government of Puerto Rico, through the Agricultural Development Administration, will then reimburse the farmer (assuming the farmer otherwise complies with the law) the amount of the wage subsidy.

<sup>134</sup> 13 L.P.R.A. § 10405

<sup>135</sup> 13 L.P.R.A. § 10406

<sup>136</sup> 13 L.P.R.A. § 10407

<sup>137</sup> 13 L.P.R.A. § 10408(a)

<sup>138</sup> Section 8423(s) of the Internal Revenue Code also provides that a bona fide farmer, who is certified as such by the Secretary of Agriculture, will have an allowance or concession of ninety (90) percent of the net income derived from the agricultural business declared in the corresponding income tax return filed during a specific term.

<sup>139</sup> See 13 L.P.R.A. § 10409 for further requirements and restrictions.

<sup>140</sup> 29 L.P.R.A. § 510-510k.

<sup>141</sup> 29 L.P.R.A. § 2031-2040.

<sup>142</sup> According to this chapter a farmer is any natural or juridical person who legally owns a farm and is engaged in general agricultural, and who pays agricultural workers at least the wages guaranteed by this chapter.



### 3. International Banking Entities (IBEs)

Puerto Rico's International Banking Center law permits the creation of international banking entities, which are essentially banks located in Puerto Rico that provide financial services to clients outside of Puerto Rico. IBEs are given attractive tax treatment:

Tax	Tax Rate
Income Tax	0% <sup>143</sup>
Dividends / Other Distributions of Profits outside of Puerto Rico	0%
Distributions in Liquidation	0%
Municipal License Tax	0%
Property Tax	0%

It should be noted that Puerto Rico is considered a foreign jurisdiction under the US International Banking Act of 1978 and Puerto Rico IBEs are therefore exempt from the IBA's requirements for domestic financial institutions. Similarly, Puerto Rico IBEs are generally exempt from the U.S. Bank Holding Company Act (BHCA) and thus may be affiliated with commercial institutions (if the IBE accepts demand deposits and issues commercial loans, however, it will be considered a Bank under the BHCA).

### 4. International Insurers

Puerto Rico's International Insurer and Reinsurer Act<sup>144</sup> (IIRA) provides for the creation of international insurers, branches of international insurers, international reinsurers and holding companies. Protected cell plans and securitization plans are allowed. To qualify as an international insurer or reinsurer under the IIRA, an insurance company must be approved by the Insurance Commissioner. Generally, an International Insurer is one that provides direct insurance only for risks outside of Puerto Rico, although it can provide surplus lines coverage and reinsurance for risks located in Puerto Rico. An International Insurer Holding Company is a Puerto Rico legal entity that holds shares or other securities of an International Insurer or another International Insurer Holding Company. A Branch is a business unit through which a foreign insurer not organized under Puerto Rico law carries out business transactions along the lines of an International Insurer.

International Insurers, Branches, and International Insurer Holding Companies are given attractive tax treatment:

Tax	Tax Rate
Income Tax	0% <sup>145</sup>
Branch Profit Tax	0%
Dividends / Other Distributions of Profits	0%
Distributions in Liquidation	0%
Municipal License Tax	0%
Property Tax	0%

<sup>143</sup> Law 7 of 2009 instituted a temporary 5% tax on international insurers and international insurer holding companies; this tax will expire on December 31, 2011.

Law No. 7 of 2009, art. 29A.

<sup>144</sup> 26 L.P.R.A. § 4301-4327.

<sup>145</sup> Law 7 of 2009 instituted a temporary 5% tax on international insurers and international insurer holding companies; this tax will expire on December 31, 2011.

Law No. 7 of 2009, art. 29A.



In addition, they are not required to file tax returns, and the revenues to non-residents are also exempt from taxation. A response to a complete application presented before the Office of the Commissioner of Insurance is granted within 60 days.

## 5. Public-Private Partnerships <sup>146</sup>

Puerto Rico has embraced public-private partnerships as a way to leverage the capital and expertise of the private sector with the management and oversight of the government to provide the public with needed assets and services. Puerto Rico's Public-Private Partnerships Authority is the public entity responsible for implementing public-private partnerships. Among its main functions are:

- establishing priorities among key projects with high PPP potential;
- conducting or commissioning analyses as well as feasibility, desirability, and convenience studies regarding specific PPP projects;
- creating and approving regulations to govern procedures leading to the establishment of Partnerships;
- evaluating the terms and conditions of each Partnership Contract and making recommendations to the PPPA Board of Directors and the Partnering Government Entity; and
- entering into direct contracts with third parties for specialized services related to the establishment of Partnerships.

The Puerto Rico government plans to utilize PPP's for strategic projects like roadways, power plants and other public infrastructure projects. As of January 2010, some 28 strategic projects had been identified, representing an estimated \$7 billion investment.

## 6. Film and Creative Services

The Puerto Rico Film Commission (PRFC) was created in 1999 to develop the film industry on the island, in part by offering incentives to off-island producers looking to film their projects in Puerto Rico. The PRFC's primary incentive is a 40% tax credit. The PRFC also provides incentives for film-industry-related infrastructure projects.

The 40% tax credit is calculated on expenditures and is issued in the form of a transferable tax credit. It applies to all payments to Puerto Rico residents for feature films, television series and miniseries (including *Telenovelas*), film soundtrack recordings, and film infrastructure projects. This "Puerto Rico spent" investment includes (but is not limited to) equipment, crew, actors, travel (if through a local travel agency), hotels, stage ground rental, and a percentage of the per diem. The tax credit is limited to 50% of the cash capital contribution.

To be eligible, the payments to Puerto Rico residents have to be made by a licensed Film Entity. The Film Entity does not need to be organized in Puerto Rico, and it can be a single purpose company established in Puerto Rico or a subsidiary registered to do business in Puerto Rico. At least 50% of principal photography has to be shot in Puerto Rico or \$1 million have to be spent in Puerto Rico. In order to ascertain the amount of any tax credit that will be granted, a Puerto Rico budget is required. There are production services companies and local Unit Production Managers that can do this work.

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<sup>146</sup> Investors interested in PPPs in Puerto Rico should visit [http://app.gobierno.pr/Index\\_eng.html](http://app.gobierno.pr/Index_eng.html).



The process is generally as follows:

- The producer requests a Film Entity License.
- PRFC requests the Treasury Department to endorse the license, and Treasury has 30 days to endorse or reject the license.
- The film's producer pays a license fee at 1% of the project's total Puerto Rico budget; payment is 50% up front and 50% when the audit is complete.
- A Film Entity License is granted.
- The audit process begins (the audit can commence during production or after payments to Puerto Rico residents stop).
- The PRFC certifies that the principal photography requirement was met.
- The producer requests a tax credit.
- Treasury issues letter certifying the tax credit.
- The tax credit is either used or sold.

The whole process should take around 100 days after principal photography has finished and the Film Entity has met all the documentation requirements.

The Treasury Department may advance 50% of the estimated tax credit before shooting. In this case, the PRFC and the producer will estimate the tax credit based on the Puerto Rico budget. To obtain this advance, the Film Entity License must be obtained, the producer must provide a proof of completion bond or letter of credit in favor of the Treasury Department for the amount of the advance, or the PRFC audit must certify that 40% of the Puerto Rico budget has been spent.

Experience shows that the tax credit will generally net, after transaction costs, about 35%-36% of the production costs spent in Puerto Rico. Transaction costs include the license fee (1% of total Puerto Rico budget), a discount on the transfer of the tax credit of around 5-9% of the tax credit (use of local financing entities should minimize the discount), the monetization and incentive request process services, and guarantees for the 50% estimated tax credit advance through a completion bond or letter of credit.

## 7. Hotel/Hospitality Development

### A. Tax Credits and Tax Exemptions

Puerto Rico's tax incentives package offers hotel developers a competitive advantage over developing in other destinations. The Puerto Rico Tourism Development Act of 1993 is the specific vehicle that depicts the parameters of such benefits, including:

Tax	Exemption Rate
Income Taxes	90%
Property Taxes	90%
Municipal License Taxes	100%
Excise Tax*	100%
Municipal Construction Tax	100%



All exempt businesses will be entitled to full exemption from excise taxes on imported articles (except for inventory items) to be used in a tourism activity, provided it is established to the satisfaction of the executive director that a genuine effort was made to acquire such articles in Puerto Rico, but such acquisition was not economically justified taking into consideration quality, quantity, price or availability in Puerto Rico.

Under the law, eligible businesses can qualify for a 10-year exemption from various Puerto Rico taxes stated above; the original 10-year term can be extended for an additional 10-year term. To be eligible, the business must be devoted to tourism activities utilizing (i) new facilities; of (ii) existing facilities which have not been used in a tourism activity for three or more years; or (iii) existing facilities for which there will be substantial renovations or expansions.

Any of the following qualifies as a tourism activity:

- the ownership or management of: hotels, condohotels, Puerto Rican inns (*Paradores*), and guest houses (but excluding the operation of casinos, theme parks, or golf-courses operated or associated with an exempt hotel), marinas operated for tourist purposes, and entertainment facilities located in port areas that stimulate tourism;
- the operation of a business renting property to an exempted tourism business; and
- the development and administration of natural resources as a source of active or passive entertainment, such as but not limited to caves, woods, lakes, etc.

The Tourism Development Act, commonly referred to as law 78, also provides for a tax credit of 50% of equity invested (including in land) by a developer, up to a maximum of 10% of the total investment. Specifically, any person who acquires an equity interest in a corporation or a partnership (either directly or indirectly through a Tourism Venture Capital Fund) that operates an exempt tourism business, or who invests in a condohotel, will be entitled to an investment tax credit equal to 50% of the cash paid for such equity investment. Land contributed to the corporation or partnership in exchange for an equity interest will also qualify for the investment tax credit. The 50% credit is to be taken in two installments: 25% in the first year of the investment and the other 25% in the second year. Any unused tax credits may be carried forward. The tax credits may be assigned, transferred, or sold. The total amount of the investment tax credit that may be taken by all investors cannot exceed 10% of the total cost of the tourist project. If the 10% limitation is exceeded, the equity investors who are the developers of the project (as opposed to passive investors in the project) will be liable for excess investment tax credits taken by them.

Any loss from the sale or other disposition of an eligible investment will be considered a capital loss or, subject to certain conditions, such loss may be taken as a credit against taxes during a five-year period.

Developers typically sell the tax credits in the local Puerto Rico Capital Market and invest the proceeds into the project. In essence the tax credit lowers the amount of equity the developer has to come up with as part of the projects capital structure.

Applications for tax exemption under the Tourism Development Act of 1993 are filed with the Executive Director of the Puerto Rico Tourism Company and with the Secretary of the Treasury. Once the application is duly filed, the grant of tax exemption must be issued or denied within 120 days.



## **B. Assistance with Project Conceptualization and Permitting**

The Puerto Rico Tourism Company also can act as a facilitator for hospitality projects that it endorses. Specifically, if the project complies with certain parameters, PRTC can act as the lead agency-proponent during the environmental planning phase, review projects drawings, coordinate with other agencies to obtain permits and endorsements, and provide technical engineering, architecture and planning assistance.

## **C. Financial Advisory Services**

The Puerto Rico Tourism Company can provide financial advisory services to small inns, *paradores*, and hotels. The PRTC financial advisory team focuses on increasing project profitability, particularly during challenging economic times. This includes: (1) a site visit by experts in hotel operations and marketing and quality control who investigate the proposed or existing hotel from an operational and guest experience point of view; (2) the preparation of a 10-year financial projection, using the uniform system of accounts for the lodging industry, breaking down the hotel's operational costs and revenues to identify possible cost savings and revenue maximization opportunities (this projection is done in conjunction with the owner or developer as a training opportunity and to encourage the use of uniform pro-formas). Information from step one and the projections from step two are then provided to the owner or developer of such venues as recommendations on how to improve their business.

## **D. Incentives for Local Certified Suppliers**

The Puerto Rico Tourism Company reimburses cruise ship owners ten percent (10%) of food and beverage purchases made from Certified Local Suppliers while the cruise ship is docked at any Puerto Rico port. The cruise ship owner must submit copies of all invoices for purchases from any Certified Local Supplier and a detailed log of its purchase receipts for the end of each calendar month. PRTC will reimburse the cruise ship owner up to 10% of the reported purchases within thirty calendar days after receiving this documentation. During the Regular Term of this regulation, PRTC will also reimburse the cruise owner an additional 5% for purchases of products from or manufactured in Puerto Rico (as certified by the Puerto Rico Industrial Development Company and the Puerto Rico Department of Agriculture) made while docked at any Puerto Rico port.

## **8. Education and Training – The Work-force Investment Act**

The Puerto Rico Human Resources and Occupational Development Council (HRODC) administers funds received by Puerto Rico under the federal Workforce Investment Act (WIA). The program offers workforce training incentives to businesses through on-the-job-training, customized training, combined programs, and retraining:

- On-the-Job training: WIA reimburses up to 50% of the salary of the participant for the duration of the training, which will vary according to the occupation and the participant's professional and educational experience level.
- Customized training: WIA reimburses up to 50% of the salary of the participant as compensation for extraordinary costs and additional supervision that comes with the training.
- Combined program: WIA grants 100% of training costs and up to 50% of the participant's salary for the duration of the training.
- Retraining: WIA grants 100% of the costs of retraining employees to handle new tasks and up to 50% of the salary of the participant during the retraining period.



## 9. Foreign Trade Zones

Puerto Rico has the largest noncontiguous Foreign Trade Zone (FTZ) system in the United States. The system allows companies to obtain significant financial savings, since raw material, components, and packaging can be transported tax-free throughout these zones and items shipped abroad after processing are exempt from U.S. taxes. Benefits include:

- deferment of federal customs duties;
- deferment of Puerto Rico excise tax;
- no payment of Municipal License Taxes on exports outside the United States;
- no U.S. customs duties on labor, overhead, or profit attributed to FTZ production operations; and
- reduced time and effort in the activation process.

Puerto Rico's FTZs are discussed in more detail in Chapter 6 below.

## 10. Small and Medium Business

Small- and medium-sized enterprises (SMEs) play a significant role in the economy of Puerto Rico, and the government is focused on facilitating their growth. Two governmental agencies are particularly focused on SMEs: the Economic Development Bank and the Puerto Rico Trade and Export Company.

### A. The Economic Development Bank <sup>147</sup>

The Economic Development Bank (EDB) offers financial support to SMEs through: asset-based loans; participation loans with private financial institutions or under the SBA 504 loan guarantee program; mezzanine financing or capitalization loans; tourism project loans; management buy-out loans; and credit lines for operational capital. The EDB's specific financing programs are described in more detail in Chapter 8 below.

### B. The Puerto Rico Trade and Export Company

The Puerto Rico Trade and Export Company (CCE by its Spanish name, *Compañía de Comercio y Exportación*) is a public corporation under the Department of Economic Development and Commerce's umbrella. CCE's mission is to foster the development of trade with special emphasis on small and medium sized businesses, and the export of Puerto Rican products and services to other countries or regions. Among the services it provides are the following:

#### **(1) Financing and Consulting Services**

CCE offers consulting services on matters such as how to establish a new business or how to expand an existing business, available options for financial help in state and federal agencies, and commercial projections and financial statements, among others.

#### **(2) Foreign Trade and Business Development Institute (known as ICEDE for its Spanish acronym)**

ICEDE designs functional training courses to instruct SMEs on the latest business trends. ICEDE is accredited by the Association for Continuing Education and Training and offers over 50 kinds of training geared to improving businesspersons' capacity and knowledge on topics such as human resource management, international trade, labor laws, computer programs, and others.

<sup>147</sup> See <http://www.bdepr.org/bdepr/creditoempresarial.php> and <http://www.bdepr.org/bdepr/creditoagricola.php>.



### **(3) Voluntary Chain Program**

The Voluntary Chain Program permits groups of independent businesses to unite under one name to create a common market and strengthen their competitiveness. Voluntary Chains must be endorsed by CCE. Voluntary Chains are exempt from municipal license taxes for the volume of their generated sales and inventory tax payments. They tend to benefit from reduced operational expenditures, more bargaining power to obtain better terms and prices on group purchases, and stronger brands. Each owner can have up to five establishments within the chain.

### **(4) Commercial Facilities**

CCE's real estate division can provide storage facilities for product distribution. CCE manages strategically located warehouses and commercial facilities in San Juan, Ponce, and Mayagüez. From these warehouses, clients distribute consumer goods such as food, pharmaceuticals, chemical products, and others to local and international markets. CCE also maintains the facilities known as the *Centro Mercantil Internacional*, the Distribution Center, and the Foreign Trade Zone 61 in Guaynabo.

### **(5) Puerto Rico Exports**

This program seeks to stimulate and promote Puerto Rican exporting activity by providing analyses of a business's exporting potential, support in identifying potential international markets, technical assistance in the exporting process, workshops and seminars on international trade, and participation in international business fairs and missions, among other benefits.

### **(6) Free Trade Zone 61**

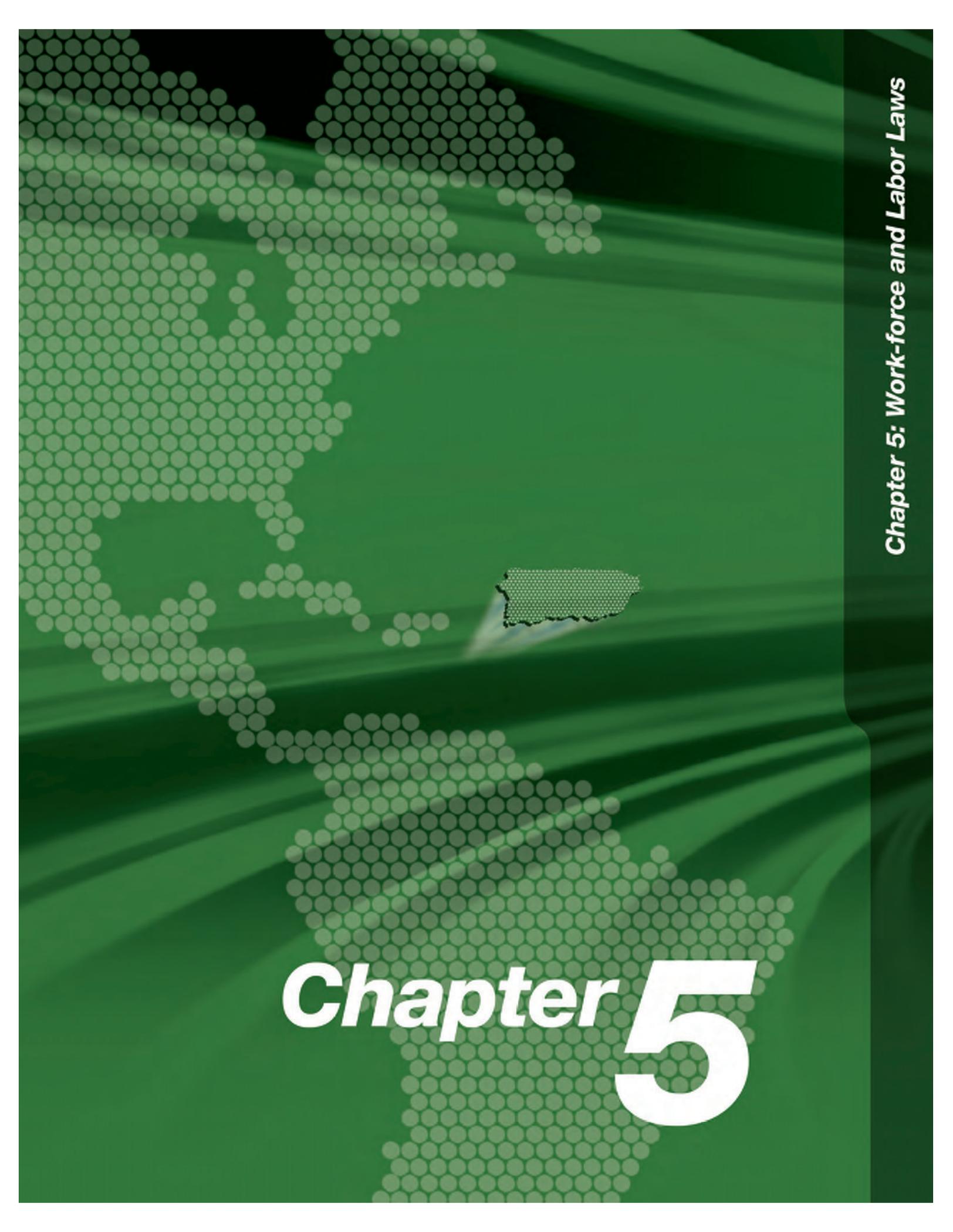
Businesses can reduce their storage and operational costs when they establish operations in Foreign Trade Zone 61 or create a sub-zone within their place of operation. This can eliminate or postpone merchandise taxes and duties.

### **(7) Puerto Rico World Trade Center (PRWTC)**

The PRWTC provides access to the best ideas in international business, provides access to new international marketing channels, and extends the benefits of the World Trade Center Association to its members. PRWTC offers a wide range of services for businesses interested in internationalizing their products and services: business training, meeting rooms, local and international business missions and fairs, international business services and counseling, and the international business library.

## **C. Credit for Electric Power**

The Puerto Rico Electric Power Authority (PREPA) is authorized to grant a 10% credit, up to a maximum of \$40 per month or \$480 per year, to small retailers or nonprofessional personal logistics facilities with seven or fewer employees that are located in urban centers.



**Chapter 5**

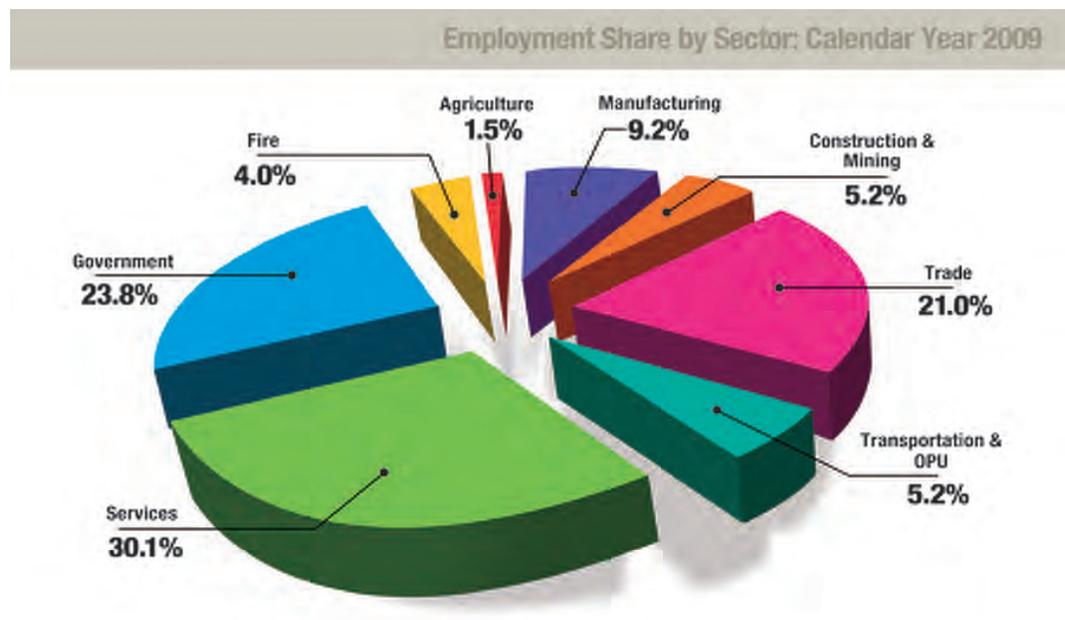


# Chapter 5

## Chapter 5: Work-force and Labor Laws

### 1. Puerto Rico's Work Force

In 2009, Puerto Rico had an average labor force of 1.33 million workers, of which 1.13 million were employed. Of these, 30.1% worked in the service sector; 23.8% in the public sector; and 21% in the trade sector. The Puerto Rico Department of Labor Household Survey provides a more detailed sector breakdown:



Broken down by occupation, Puerto Rico's employed labor force comprised: 29.8% managers, professionals, and executives; 27.2% technical, sales, and administrative support workers; 17.2% service workers; 10.4% operators and related production workers; 7.8% mechanics, repairmen, carpenters, masons, and related occupations; and 4.8% general laborers. Farm workers accounted for only a 2.8% of the island's total labor force in 2009. More detailed information and occupational breakdowns by gender are in the table below.

Source: Puerto Rico Department of Labor & Human Resources, Household Survey.



Occupations by Gender (Averages for Calendar Year 2009 - In Thousands)

Description	All	Male	Female
All Groups	1,127	610	517
Managerial & Professional Occupations	336	146	191
Professional	111	47	64
Teachers	80	17	63
Administrators, Managers & Executives	132	71	62
Post Secondary Studies	131	72	59
Semi-professionals	13	11	2
Technical, Sales & Administrative Support	306	102	203
Secretaries, Clerks & Administrative Support	189	42	147
Sales Representatives & Related	84	55	29
Health Technicians	33	7	26
Craftsmen, Foremen & Related	88	86	2
Mechanics & Repairmen	37	36	1
Carpenters, Masons & Related <sup>1/</sup>	38	38	N/A
Craftsmen & Other Workers	13	12	1
Subtotal	117	88	30
Operators, Assemblers & Inspectors	48	30	19
Transportation & Related Operators	47	45	2
Other Operators & Tenders	22	13	9
Service Workers	194	109	85
Domestic Services <sup>2/</sup>	11	N/A	11
Protective Services	63	50	13
Other Services	120	59	61
Farm Workers	32	30	2
Farmers & Farm Managers <sup>1/</sup>	6	6	N/A
Farm Laborers & Foremen <sup>1/</sup>	26	24	N/A
General Labor Workers	54	48	5

<sup>1/</sup> Data not available; insufficient data to estimate the number of female workers

<sup>2/</sup> Data not available; insufficient data to estimate the number of male workers

Source: Puerto Rico Department of Labor and Human Resources, Household Survey, 2009.

Note: Numbers may not add up to the total due to rounding.



#### D. Education Levels in Puerto Rico's Work Force

The 1,127,000 workers employed in Puerto Rico in 2009 had the following education levels: 305,000 (27.1%) had obtained a high school diploma; 169,000 (15.0%) had completed an associates degree; 293,000 (26.0%) had earned a bachelors degree; 131,000 (11.6%) had taken courses in postsecondary studies; 88,000 (8.0%) had a post-graduate degree; 66,000 (5.9%) had a masters degree; 19,000 (1.7%) had a Ph.D.; and 3,000 (0.3%) had a law degree.

Persons Employed by Academic Level (Calendar Year 2009 – In Thousands)			
Last Completed Grade	All	Men	Women
Totals	1,127	610	517
1st To 11th Grade	131	105	26
High School Diploma	305	196	109
Postsecondary Studies	131	72	59
Associates Degree	169	84	85
Bachelors	293	113	179
Masters	66	21	45
Juris Doctor	3	2	1
Doctorate	19	9	10
Other	8	7	1
Median Years of Education	13.2	13	13.3

Source: Puerto Rico Department of Labor and Human Resources, 2009

Note: Numbers may not add up to the total due to rounding.

According to the latest Puerto Rico Community Survey conducted by the U.S. Census Bureau, 396,866 Puerto Rican residents that are 25 years or older had a bachelor's degree in 2008, and 137,436 residents in the same age group had graduate and professional degrees.<sup>148</sup> Combined, 21% of Puerto Rico residents that are 25 years or older have a bachelor's degree or higher.

<sup>148</sup> The American Community Survey is a nationwide survey designed to provide communities a fresh look at how they are changing. The Puerto Rico Community Survey (PRCS) is the equivalent of the American Community Survey (ACS) for Puerto Rico. The latest PRCS covered years 2006-2008.



Puerto Rico Community Survey 2006-2008 Scholarship Statistics

Population Over 24 Years Old	2,540,944	100.0%
Ninth Grade or Less	578,325	22.8%
From 9th to 11th Grade	274,492	10.8%
High School Graduate	636,563	25.1%
Postsecondary Studies	306,098	12.0%
Associate Degree	211,164	8.3%
Bachelor's Degree	396,866	15.6%
Graduate or Professional Degree	137,436	5.4%
High School or Higher	1,688,127	66.4%
Associate Degree or Higher	745,466	29.3%
Bachelor's Degree or Higher	534,302	21.0%

*Source: United States Census Bureau, 2009.*

Some 211,458 students, or 5.4% of the island's population, were enrolled in higher education institutions in Puerto Rico for academic year 2007. Puerto Rican universities and other postsecondary institutions graduated 28,304 students in 2007, conferring 17,109 bachelors degrees, 5,754 masters degrees; 4,268 associates degrees; 902 first professional degrees; and 271 Ph.D.'s. Science and technology degrees represented 29.5% of these conferred degrees. In 2007, 4,084 bachelor's degrees, 3,083 associate degrees, 787 master's degrees, 360 first professional degrees, and 32 Ph.D.'s in science and technology fields were conferred.<sup>149</sup>

<sup>149</sup> The National Center of Education Statistics has not published detailed data on science and technology conferred degrees for years 2006-2007. PRIDCO prepared these estimates based on historical proportions and trends.



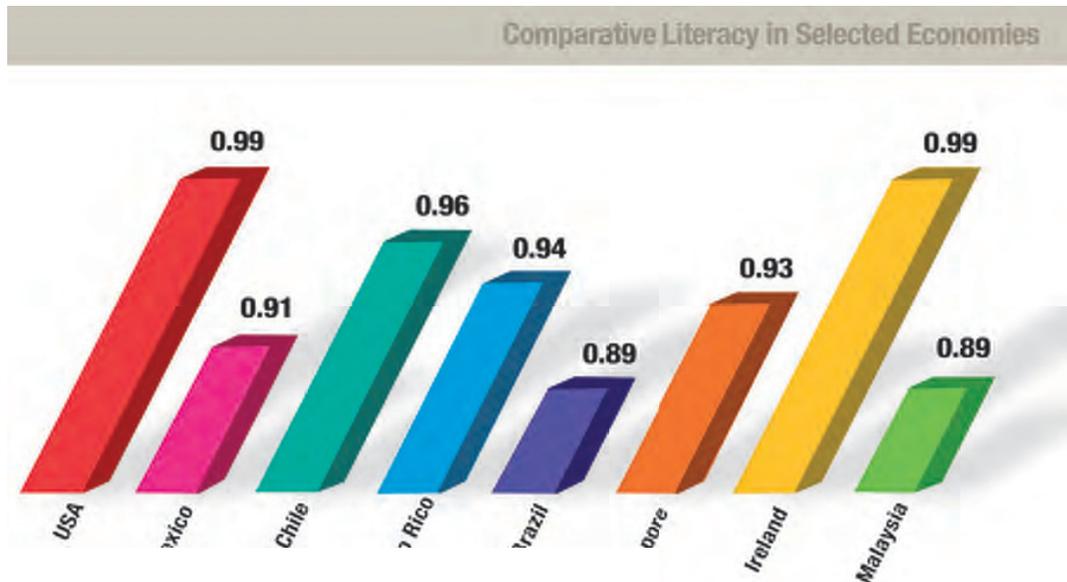
Higher Education Degrees Awarded in Puerto Rico

Academic Year	2001	2002	2003	2004	2005	2006	2007
<b>All Degrees</b>							
Level/Totals	26,173	25,144	25,406	26,657	26,261	27,726	28,304
Doctorate	153	151	153	193	221	242	271
First Professional	856	793	856	904	883	872	902
Master's	3,276	3,257	3,276	3,751	4,241	5,180	5,754
Bachelor's	15,758	16,478	16,724	17,359	16,646	17,129	17,109
Associate's	6,130	4,465	4,397	4,450	4,270	4,303	4,268
<b>Science &amp; Technology Degrees</b>							
Level/Subtotals	8,071	7,848	8,408	8,092	8,120	8,230	8,346
Doctorate	49	35	32	31	32	33	32
First Professional	318	334	344	344	334	349	360
Master's	563	585	593	608	606	675	787
Bachelor's	4,272	4,278	4,598	4,316	4,094	4,103	4,084
Associate's	2,869	2,616	2,841	2,793	3,054	3,070	3,083

Sources: National Center of Education Statistics.

Note: Science and Technology figures for year 2006 are estimates made by PRIDCO.

Puerto Rico's literacy rate of 94% is among the highest in the world.



Source: CIA Factbook, 2009.



## E. Wage Comparison between Puerto Rico and the U.S.

According to the Bureau of Labor Statistics' Occupations and Wages Survey of May 2009, Puerto Rico's annual average wage cost was 40.9% less than that of the U.S. national estimate. Details of the wage comparison by occupation are listed in table below.

Wage Comparison between PR and the U.S.

Description	US Mean Hourly Wage	PR Mean Hourly Wage	Diff.	%
<b>All Occupations</b>	<b>20.90</b>	<b>12.35</b>	<b>8.55</b>	<b>40.9%</b>
<b>Management Occupations</b>	<b>49.97</b>	<b>31.80</b>	<b>18.17</b>	<b>36.4%</b>
Chief Executives	80.43	51.91	28.52	35.5%
General and operations Managers	53.15	39.54	13.61	25.6%
Computer & Information Systems managers	58.00	35.81	22.19	38.3%
Engineering Managers	59.04	45.17	13.87	23.5%
<b>Business &amp; Financial Occupations</b>	<b>31.68</b>	<b>16.87</b>	<b>14.81</b>	<b>46.7%</b>
Logisticians	33.85	23.99	9.86	29.1%
Accountants & Auditors	32.42	16.90	15.52	47.9%
Financial Analysts	40.98	24.57	16.41	40.0%
<b>Computer &amp; Mathematical Sciences Occupations</b>	<b>36.68</b>	<b>20.39</b>	<b>16.29</b>	<b>44.4%</b>
Computer Programmers	35.91	19.76	16.15	45.0%
Computer Software Engineers (Applications)	43.35	32.11	11.24	25.9%
Computer Systems Analysts	38.67	23.00	15.67	40.5%
<b>Architecture &amp; Engineering Occupations</b>	<b>35.38</b>	<b>24.05</b>	<b>11.33</b>	<b>32.0%</b>
Chemical Engineers	44.07	31.08	12.99	29.5%
Civil Engineers	39.03	29.29	9.74	25.0%
Computer Hardware Engineers	48.75	29.51	19.24	39.5%
Industrial Engineers	37.06	29.88	7.18	19.4%
Engineering Technicians, All Other	28.04	14.14	13.90	49.6%
<b>Life, Physical &amp; Social Sciences Occupations</b>	<b>31.57</b>	<b>20.29</b>	<b>11.28</b>	<b>35.7%</b>
Microbiologists	34.61	20.57	14.04	40.6%
Chemists	34.97	25.17	9.80	28.0%
Chemical Technicians	21.11	17.48	3.63	17.2%
<b>Office &amp; Administrative Support Occupations</b>	<b>15.86</b>	<b>10.92</b>	<b>4.94</b>	<b>31.1%</b>
Managers	24.04	16.29	7.75	32.2%
Cargo & Freight Agents	18.72	11.50	7.22	38.6%
Shipping, Receiving & Traffic Clerks	14.35	9.87	4.48	31.2%
Executive Secretaries & Admin. Assistants	21.16	13.44	7.72	36.5%
Computer Operators	18.05	10.45	7.60	42.1%
Office Clerks, General	13.32	9.67	3.65	27.4%



Description	US Mean Hourly Wage	PR Mean Hourly Wage	Diff.	%
<b>Production Occupations</b>	<b>16.01</b>	<b>10.40</b>	<b>5.61</b>	<b>35.0%</b>
Supervisors & Managers	26.51	19.18	7.33	27.6%
Team Assemblers	13.87	8.41	5.46	39.4%
Multiple Machine Setters, Tenders, Operators	15.80	9.09	6.71	42.5%
Tool & Die	23.43	12.15	11.28	48.1%
Chemical Plant & System Operators	25.97	16.28	9.69	37.3%
Helpers	11.54	8.48	3.06	26.5%
Production Workers, All Other	14.97	11.12	3.85	25.7%
<b>Transportation &amp; Material Moving Occupations</b>	<b>15.47</b>	<b>9.45</b>	<b>6.02</b>	<b>38.9%</b>
Supervisors & Managers	21.76	13.44	8.32	38.2%
Truck Drivers, Heavy & Tractor-Trailer	18.87	8.66	10.21	54.1%
Packers & Packers	10.47	7.64	2.83	27.0%
Transportation Workers, All Other	16.94	9.94	7.00	41.3%
Material Moving Workers, All Other	16.45	9.76	6.69	40.7%

Source: Bureau of Labor Statistics, Occupational Employment Statistics Survey, May 2009.

## 2. The Puerto Rico Department of Labor<sup>150</sup>

The Puerto Rico Department of Labor and Human Resources (DLHR) is the primary government agency charged with establishing and implementing labor and employment law on the island. In addition, the DLHR plays a key role in implementing, developing, and coordinating public policy and programs geared towards developing and training the human resources required for the labor market. Moreover, the Secretary of Labor has the duty to investigate every complaint alleging the violation of any labor-protecting laws.

<sup>150</sup> 3 L.P.R.A. §301-328.



### 3. Immigration Laws <sup>151</sup>

As in all U.S. jurisdictions, immigration and work visas in Puerto Rico are governed by U.S. federal law and administered by the United States Department of Homeland Security's Citizenship and Immigration Services. A range of permanent and temporary status options is available to certain foreign workers.<sup>152</sup>

Foreign nationals who obtain a Green Card become permanent U.S. residents and are permitted to live and work in the U.S. indefinitely. Aside from permanent residents, U.S. law permits some foreign nationals to work in the U.S. indefinitely. Here is a list of permanent work options for non-immigrant foreign nationals:

Permanent Worker Visa Preference Categories		
Preferences	General Description	Labor Certification Required?
EB-1	Reserved for persons of extraordinary ability in the sciences, arts, education, business, or athletics; outstanding professors or researchers; and multinational executives and managers.	No
EB-2	Reserved for persons who are members of the professions holding advanced degrees or for persons with exceptional ability in the arts, sciences, or business.	Yes, unless the applicant can obtain a national interest waiver
EB-3	Reserved for professionals, skilled workers, and other workers.	Yes
EB-4	Reserved for special immigrants, which include certain religious workers, employees of U.S. foreign service posts, retired employees of international organizations, alien minors who are wards of courts in the United States, and other classes of aliens.	No
EB-5	Reserved for business investors who invest \$1 million or \$500,000 (if the investment is made in a targeted employment area) in a new commercial enterprise that employs at least 10 full-time U.S. workers.	No

<sup>151</sup> 8 U.S.C.A. §1101-1537.

<sup>152</sup> For more detailed information, see the United States Department of Homeland Security's Citizenship and Immigration Services webpage at <http://www.uscis.gov/portal/site/uscis>.



Federal law also permits certain foreign nationals to study, work, or train in the U.S. on a temporary basis. Here is a list of temporary educational and work options for non-immigrant foreign nationals:

### Temporary (Nonimmigrant) Worker Classification<sup>153</sup>

Nonimmigrant Classification for Temporary Workers	Description	Nonimmigrant Classification for Dependant Spouse & Children of Temporary Workers
E-1	Treaty traders and qualified employees	E-1
E-2	Treaty investors and qualified employees	E-2
E-3	Certain “specialty occupation” professionals from Australia	E-3
H-1B	Workers in a specialty occupation and the following sub-classifications: <ul style="list-style-type: none"> <li>• H-1B1 - Free Trade Agreement workers in a specialty occupation from Chile and Singapore</li> <li>• H-1B2 - Specialty occupations related to Dept of Defense Cooperative Research and Development projects or Co-production projects</li> <li>• H-1B3 - Fashion models of distinguished merit and ability</li> </ul>	H-4
H-2A	Temporary or seasonal agricultural workers	H-4
H-2B	Temporary non-agricultural workers	H-4
H-3	Trainees other than medical or academic. This classification also applies to practical training in the education of handicapped children	H-4
I	Representatives of foreign press, radio, film or other foreign media	I
L-1A	Intracompany transferees in managerial or executive positions	L-2
L-1B	Intracompany transferees in positions utilizing specialized knowledge	L-2 <sup>154</sup>

<sup>153</sup> See <http://www.uscis.gov/portal/site/uscis/menuitem.eyJ1d4c2a3e5b9ac89243c6a743f6d1a/?vgnnextoid=13ad2f8b69583210VgnVCM100000082ca60aRCRD&vgnextchannel=13ad2f8b69583210VgnVCM100000082ca60aRCRD>. Only a few nonimmigrant classifications allow foreign nationals to obtain permission to work in the U.S. without an employer having first filed a petition on your behalf, including the nonimmigrant E-1, E-2, E-3 and TN classifications, as well as, in certain instances, the F-1 and M-1 student and J-1 exchange visitor classifications.

<sup>154</sup> L-2 dependent spouses may apply for employment authorization



### Temporary (Nonimmigrant) Worker Classification<sup>153</sup>

O-1	Persons with extraordinary ability in sciences, arts, education, business, or athletics and motion picture or TV production	O-3
O-2	Persons accompanying solely to assist an O-1 nonimmigrant	O-3
P-1A	Internationally recognized athletes	P-4
P-1B	Internationally recognized entertainers or members of internationally recognized entertainment groups	P-4
P-2	Individual performer or part of a group entering to perform under a reciprocal exchange program	P-4
P-3	Artists or entertainers, either an individual or group, to perform, teach, or coach under a program that is culturally unique	P-4
Q-1	Persons participating in an international cultural exchange program for the purpose of providing practical training, employment, and to share the history, culture, and traditions of the alien's home country	Not Applicable <sup>155</sup>
R-1	Religious workers	R-2
TN	North American Free Trade Agreement (NAFTA) temporary professionals from Mexico and Canada	TD

### Students (Academic and Vocational (F and M visas)<sup>156</sup>

F-1	Academic students
F-2	Spouses and children of F-1
F-3	Canadian or Mexican national academic commuter students
M-1	Vocational students
M-2	Spouses and children of M1
M-3	Canadian or Mexican national vocational commuter students

### Exchange Visitors (J visas)<sup>157</sup>

J-1	Exchange visitors
J-2	Spouses and children of J-1

<sup>155</sup> Though the Immigration and Nationality Act (INA) does not provide a specific nonimmigrant classification for dependents of Q-1 nonimmigrants, this does not preclude the spouse or child of a Q-1 from entering the U.S. in another nonimmigrant classification.

<sup>156</sup> See <http://www.uscis.gov/portal/site/uscis/menuitem.eb1d4c2a3e5b9ac89243c6a7543f6d1a/?vgnextoid=704e2f8b69583210VgnVCM100000082ca60aRCRD&vgnextchannel=704e2f8b69583210VgnVCM100000082ca60aRCRD>.

<sup>157</sup> See <http://www.uscis.gov/portal/site/uscis/menuitem.eb1d4c2a3e5b9ac89243c6a7543f6d1a/?vgnextoid=704e2f8b69583210VgnVCM100000082ca60aRCRD&vgnextchannel=704e2f8b69583210VgnVCM100000082ca60aRCRD>.



#### Temporary Visitors for Business<sup>158</sup>

B-1	Temporary business visitor to conduct activities of a commercial or professional nature. For example, consult with business associates, negotiate a contract, or attend a business conference
WB	Temporary visitor for Business admitted under Visa Waiver Program
GB	Temporary visitor for Business (limited to Guam)

In many cases, visa processing can take several months. Moreover, visa status is often employer- and position-dependent, so changes affecting the identity of the employer, the nature of the employer's position, or the employer-employee relationship can alter or invalidate the employee's residency status. There are potential penalties to both employee and employer for violating visa terms or time limits.

## 4. Labor and Employment Law

Both federal and local labor and employment laws apply in Puerto Rico. Federal labor laws are administered by the United States Department of Labor.<sup>159</sup> Federal employment discrimination laws are administered by the U.S. Equal Employment Opportunity Commission.<sup>160</sup> Puerto Rico's labor and employment laws are contained in Title 29 of the Puerto Rico Code, which defines the rights and obligations of employers and employees alike.

### A. Employment Contracts

Generally, the relationship between employer and employee is contractual, although some special rules apply to certain employment issues. As such, the relationship can be established either by oral or written agreement. Unless otherwise agreed, there is a presumption that employer-employee relationships are for an indefinite period, but employers are permitted to hire employees for specific time periods or based on other defined conditions; such contracts should be in writing. Employers can hire term employees using, for example, temporary employment contracts, probationary employment contracts, or construction employment contracts. They can hire such employees either through a temporary employment agency or directly.

### B. Payroll Taxes

Payroll taxes, including applicable income, social security, unemployment, and disability taxes, are subject to withholding. This is discussed in more detail in Chapter 4 of this document.

### C. Wages and Hours

A number of federal and local wage-and-hour laws apply in Puerto Rico. This section describes some of those laws, but employers are urged to consult the Department of Labor and Human Resources and/or a labor and employment specialist for specific questions.

<sup>158</sup> See <http://www.uscis.gov/portal/site/uscis/menuitem.eyJ1d4c2a3e5b9ac89243c6a7543f6d1a/?vgnnextoid=fade2f8b69583210VgnVCM100000082ca60aRCRD&vgnextchannel=fade2f8b69583210VgnVCM100000082ca60aRCRD>.

<sup>159</sup> See <http://www.dol.gov/opa/aboutdol/lawsprog.htm>.

<sup>160</sup> See <http://www.eeoc.gov/laws/statutes/index.cfm>.



### **(1) Minimum Wage**

The federal Fair Labor Standards Act's minimum wage - \$7.25/hour - applies to businesses operating in Puerto Rico that (1) have employees either (a) engaged in commerce or in the production of goods for commerce or (b) engaged in handling, selling, or otherwise working on goods or materials that have been moved in or produced for commerce by any person and (2) have annual gross volume of sales made or business done of at least \$500,000.<sup>161</sup>

The Puerto Rico minimum wage applies to all businesses to which the federal minimum wage does not apply. The minimum wage for those businesses excluded from the federal minimum wage is the equivalent to seventy percent (70%) of the prevailing federal minimum wage.<sup>162</sup>

### **(2) Working Hours**

For employees covered under the FLSA, normal working hours should be no more than eight hours per day or forty hours per week. Employees who work in excess of normal hours are entitled to time-and-a-half wages.<sup>163</sup> Employees covered by the FLSA are: any individual engaged in commerce or in the production of goods for commerce<sup>164</sup>, or an individual employed by a public agency<sup>165</sup>. Excluded from this Act are individuals employed by an employer engaged in agriculture (if such individual is a member of the employer's immediate family), individuals who volunteer to perform services for a public agency (which includes a State, political subdivision of a State, or an interstate governmental agency), and individuals who volunteer their services for humanitarian purposes.

Employees not covered by the FLSA are covered by Puerto Rico's wage-and-hour laws. Generally, for covered employees, regular working hours should be (1) no more than 8 hours per day, from 8:00 a.m. to 5 p.m., with one hour for lunch, and (2) 40 hours per week. Flexible schedules to advance or delay the beginning of the workday and the period for taking meals are permitted by mutual agreement, but the workday shall not exceed eight hours without being paid overtime.<sup>166</sup> Employees who work in excess of regular time are entitled to double pay.<sup>167</sup> Special rules apply to employees working on Sundays and certain holidays.<sup>168</sup>

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<sup>161</sup> The FLSA is codified at 29 U.S.C.A. § 201-219.

<sup>162</sup> 29 L.P.R.A. § 250a.

<sup>163</sup> 29 U.S.C.A. § 207.

<sup>164</sup> "Enterprise engaged in commerce or in the production of goods for commerce" means an enterprise that has employees engaged in commerce or in the production of goods for commerce, or that has employees handling, selling, or otherwise working on goods or materials that have been produced for commerce; and its annual gross volume of sales is not less than \$500,000. Also includes enterprise engaged in the operation of a hospital, institution engaged in the care of the sick, aged, or the mentally ill, a preschool, elementary or secondary school, or an institution of higher education. Any establishment that has as its only employees the owner or any member of the immediate family of the owner will not be considered an enterprise engaged in commerce or in the production of goods for commerce.

<sup>165</sup> Individual employed by a public agency means: any individual employed by the Government of the United States, any individual employed by the United States Postal Services or the Postal Rate Commission, and any individual employed by a State, political subdivision of a State, or an interstate governmental agency.

<sup>166</sup> 29 L.P.R.A. §272a.

<sup>167</sup> 29 L.P.R.A. §250 - 250j

<sup>168</sup> Law No. 143 of November 17, 2009, "Ley de Cierre."



Under Puerto Rico law, an employee includes every employee, workman, day laborer, artisan, laborer, clerk, shop clerk and every person employed for wages, salary, day wages, or any other form of compensation in any occupation, establishment, business, or industry, excepting traveling agents and peddlers. The word “employee” does not include executives<sup>169</sup>, administrators<sup>170</sup>, professionals<sup>171</sup>, or labor union officials or organizers when acting as such.

### **(3) Holidays**

The following local and federal holidays are observed in Puerto Rico. When a holiday falls on a Sunday, the holiday usually is observed on the following Monday.

- New Year’s Day (Jan 1st)
- Epiphany (Jan 6)
- Hostos’ Birthday (2d Monday of January)
- Martin Luther King Day (3d Monday of Jan)\*
- Presidents Day (3d Monday of February)\*
- Emancipation Day (March 22)\*
- Good Friday (March or April)
- Easter Sunday (March or April)
- De Diego’s Birthday (3d Monday of April)\*
- Memorial Day (4th Monday of May)\*
- U.S. Independence Day (July 4)\*
- L. Muñoz Rivera Birthday (3d Monday of July)\*
- P.R. Constitution Day (4th Monday of July)\*
- Jose Barbosa’s Birthday (July 27)\*
- Labor Day (1st Monday of September)\*
- Columbus Day (October 12)\*
- Veterans’ Day (November 11)\*
- Puerto Rico Discovery Day (November 19)\*
- Thanksgiving Day (4th Thursday of November)
- Christmas Day (December 25)

*\*Holidays designated with a \* are mandatory only for government employees*

## **D. Working Age**

The FLSA permits the employment of persons between the ages sixteen (16) and eighteen (18) only in occupations that the Secretary of Labor does not declare to be hazardous or detrimental to the health of children. Children between the ages of 14 and 16 are permitted to work (1) in occupations other than manufacturing and mining that are not oppressive child labor (*i.e.*, that do not interfere with the child’s education, health, or well being); and (2) when the parent or person in place of the parent employs his or her child under 16 in most occupations (excluding mining and manufacturing or other occupations that the Department of Labor prohibits).<sup>172</sup>

Where the FLSA does not apply, the age at which people in Puerto Rico can legally work is 14, but the employment of persons between 14 and 18 years of age is subject to certain restrictions. Specifically, employees under 19 years of age should not work more than eight (8) hours in one day, six (6) consecutive days in one week, or for more than forty (40) hours in one week. Moreover, employees under 16 years of age should not start work before 8:00 a.m. or work after 6:00 p.m., and employees between 16 and 18 years of age should not begin before 6:00 a.m. or work after 10:00 p.m.<sup>173</sup>

<sup>169</sup> The term “executive” includes every employee that (1) is compensated on a salary or fee basis of \$455 per week or more; (2) has the primary duty of managing the enterprise in which he works or a department or subdivision of that business; (3) usually and regularly manages two or more employees; and (4) has the authority to hire or fire other employees and to suggest the hiring, firing, promotion, or any other change of status of other employees.

<sup>170</sup> The term “administrator” includes every employee that (1) is compensated on a salary or fee basis of \$455 per week or more; (2) has the primary duty of performing office or non-manual work directly related to the management or the business operations of the employer (e.g. budgeting, accounting, auditing, finance, etc.); and (3) has primary duties that include the use of discretion and independent judgment in relation to matters of great importance.

<sup>171</sup> the term “professional” includes every employee that (1) is compensated on a salary or fee basis of \$455 per week or more and (2) has the primary duty of performing work that: (i) requires knowledge of an advanced type in the field of science or learning that is usually acquired by a prolonged course of studying (e.g. law, medicine, engineering, architecture, accounting, etc.), or (ii) that requires invention, imagination, originality or talent in a recognized artistic field.

<sup>172</sup> 29 U.S.C.A. § 203l.

<sup>173</sup> 29 L.P.R.A. § 433.



## **E. Employee Benefits**

### **(1) Vacation and Sick Leave <sup>174</sup>**

Hourly employees are entitled to paid vacation and sick leave, generally of 1.25 days and one day per month, respectively. The employee has to work at least one hundred and fifteen (115) hours a month in order to receive such benefits.

### **(2) Annual Bonus <sup>175</sup>**

Employers are required to pay a bonus during the period from December 1 to December 15 of each year to each employee who works at least 700 hours during the 12-month period commencing October 1 of each calendar year. For employers with fewer than 15 employees, the mandatory bonus is 3% of the employee's total wages up to \$10,000 (*i.e.*, employees making less than \$10,000 receive a bonus of 3% of their wages or, at the employer's discretion, more; employees making \$10,000 or more receive a bonus of \$300 or, at the employer's discretion, more). For employers with 15 or more employees, the mandatory bonus is 6% of the employee's total wages up to \$10,000. Certain credits may be available, and each employer's aggregate annual bonus need not exceed 15% of net profit for each year.

### **(3) Maternity Leave <sup>176</sup>**

Female employees are generally entitled to an eight-week maternity leave with full pay (including for adoption when the adopted child is 5 years of age or less). The employer is required by law to reserve the position. Upon return to work, time is allotted during each full-time working day for breastfeeding.

### **(4) Jury Duty and Witness Leaves <sup>177</sup>**

Employees called for jury duty in any court case are entitled to up to fifteen days of paid leave for their service, and their reinstatement is protected. Employees called as witnesses in criminal cases are entitled to paid leave for the duration of their time spent in court; their reinstatement is also protected. Employers are prohibited from deducting such employees' salary, vacation, or sick leave for time spent as jurors or witnesses in criminal cases.

### **(5) Workmen's Compensation <sup>178</sup>**

All employers must obtain workmen compensation insurance from the State Insurance Fund. This insurance provides compensation to employees for work-related accidents or conditions, including occupational diseases. There are exceptions (*e.g.*, when an employee is injured as a result of attempting to commit a crime, being intoxicated or engaging in reckless behavior). A covered employer is not subject to suits for employment-related accidents. The Compensation System for Work-Related Accidents Act protects the employee's right to reinstatement for 12 months after an accident.<sup>179</sup>

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<sup>174</sup> 29 L.P.R.A. § 250d.

<sup>175</sup> 29 L.P.R.A. §§ 501-507.

<sup>176</sup> 29 L.P.R.A. §467-476.

<sup>177</sup> 29 L.P.R.A. §193-194b; 34 L.P.R.A. §1735i.

<sup>178</sup> 11 L.P.R.A. §1-42.

<sup>179</sup> 11 L.P.R.A. §7.



### **(6) Severance Pay <sup>180</sup>**

An employee hired for an indefinite term who is discharged without just cause is entitled to severance pay. The statute defines just cause for a discharge to include instances when (a) the worker indulges in a pattern of improper or disorderly conduct; (b) the attitude of the employee of not performing his work in an efficient manner or in compliance with the business' standards of quality; (c) the employee repeatedly violates the rules and regulations established for the operation of the establishment; (d) the establishment is ceasing operations; or (e) reductions in employment have been necessitated by a reduction in the business' anticipated volume of production, sales, or profits. The base rate of severance pay is two month's salary plus one week's pay for each year of service. Employees who worked for between 5 and 15 years are entitled to additional severance pay of 3 months' salary plus 2 weeks' salary for each year worked. Finally, employees discharged after 15 years of service are entitled to receive severance pay of 6 months and 3 weeks' salary for each year worked. Employees hired for a probationary period are not covered, provided their contract is in writing and the probationary period does not exceed 3 months. If the employee continues to work after the contract expires, the employee will acquire the rights of an employee as if contracted without a definite term.

## **F. Federal Anti-Discrimination in Employment Laws**

As a U.S. jurisdiction, Puerto Rico is subject to federal employment laws, including the following:

### **(1) Title VII <sup>181</sup>**

Title VII, which generally applies to employers engaged in interstate commerce who have fifteen or more employees, prohibits employers from discriminating based on race, color, religion, sex, or national origin.

### **(2) Age Discrimination in Employment Act (ADEA) <sup>182</sup>**

The ADEA, which generally applies to employers engaged in interstate commerce who have twenty or more employees, forbids discrimination based on age in employment decisions.

### **(3) Americans with Disabilities Act (ADA) <sup>183</sup>**

The ADA, which generally applies to employers engaged in interstate commerce who have fifteen or more employees, makes it unlawful for an employer to discriminate against a qualified individual with a disability. A qualified individual with a disability means an individual with a disability who, with or without reasonable accommodation, can perform the essential functions of the employment position that such individual holds or desires. The ADA also requires employers to reasonably accommodate qualified individuals in the workplace; the employer must work with the employee to determine whether and what accommodation is reasonable.

## **G. Additional Federal Employment Laws**

### **(1) Family and Medical Leave Act (FMLA) <sup>184</sup>**

The FMLA, which generally applies to employers engaged in interstate commerce who have fifty or more employees, requires that eligible employees be allowed to take up to twelve weeks of unpaid leave per year for the birth or adoption of a child or the serious health condition of the employee or the spouse, parent, or child of the employee.

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<sup>180</sup> 29 L.P.R.A. §185a-185m.

<sup>181</sup> 42 U.S.C.A. § 2000e-2000e-17.

<sup>182</sup> 29 U.S.C.A. §§ 621-634.

<sup>183</sup> 42 U.S.C.A. §§ 12111-12117.

<sup>184</sup> 29 U.S.C.A. §§ 2611-2619.



**(2) Occupational Safety and Health Act (OSHA) <sup>185</sup>**

OSHA, which applies to all employers who are engaged in an industry affecting commerce, establishes health and safety regulations in the workplace.

**(3) Employee Polygraph Protection Act (EPPA) <sup>186</sup>**

The EPPA, which applies to most employers engaged in interstate commerce, limits employers' ability to require polygraph testing of employees. Certain employers are exempt, including governmental employers, FBI contractors, and those employers whose primary business is running a security service or manufacturing, distributing, or dispensing a controlled substance.

**(4) National Labor Relations Act <sup>187</sup> and Labor Management Reporting and Disclosure Act <sup>188</sup>**

These statutes, which apply, with narrow exceptions, to all employers engaged in interstate commerce regardless of the number of employees, govern labor-management relations.

**(5) Worker Adjustment Retraining and Notification Act (WARN) <sup>189</sup>**

The WARN Act, which generally applies to most businesses with 100 or more full-time employees, requires employers to give sixty days notice to their employees of plant closings or mass layoffs.

**(6) Immigration Reform and Control Act (IRCA)**

The IRCA requires employers to verify immigration status and employment authorization for all employees.

**(7) Employee Retirement Income Security Act of 1974 (ERISA) <sup>190</sup>**

ERISA governs most types of employee benefit plans, including retirement plans, life and disability insurance, medical reimbursement plans, health care plans, and severance policies. ERISA requires certain reporting and disclosure, imposes fiduciary duties, and, for most types of retirement plans, establishes coverage, vesting, and funding requirements.

**(8) Consolidated Omnibus Budget Reconciliation Act (COBRA)**

COBRA requires employers to provide certain terminated employees with an option to continue to obtain health insurance under the employer's plans (at the terminated employee's cost), typically for up to eighteen months following termination.

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<sup>185</sup> 29 U.S.C.A. §§ 651-700.

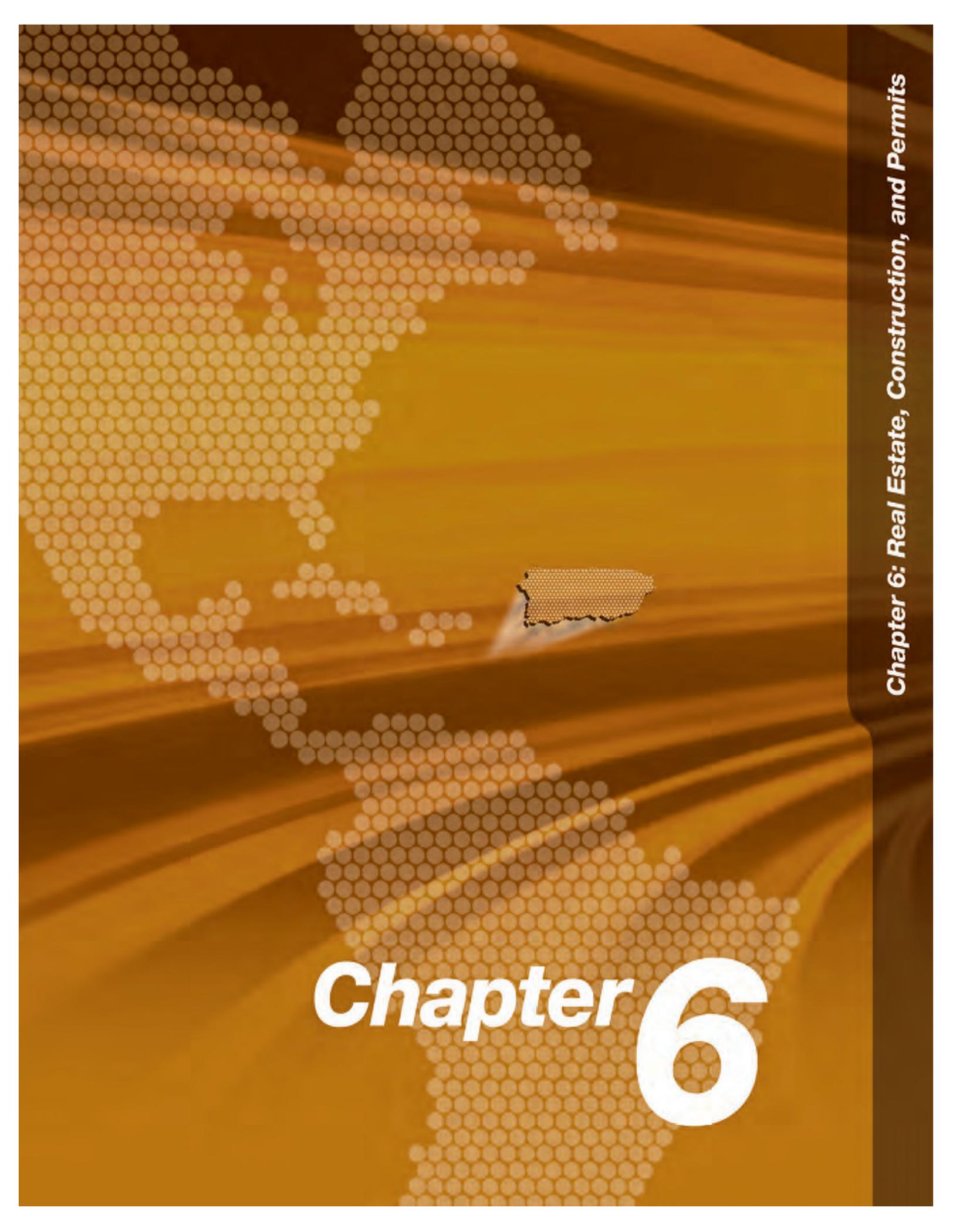
<sup>186</sup> 29 U.S.C.A. §§ 2001-2009.

<sup>187</sup> 29 U.S.C.A. § 151-169.

<sup>188</sup> 29 U.S.C.A. § 401-504.

<sup>189</sup> 29 U.S.C.A. § 2101-2109.

<sup>190</sup> 29 U.S.C.A. § 1001-1461.



**Chapter 6**

## Chapter 6: Real Estate, Construction and Permits<sup>191</sup>

### 1. Introduction

Investors interested in obtaining property either to develop or to operate a business should understand the basics of Puerto Rico real estate, including the processes related to land use and construction. It is also important to remember that various government agencies maintain a portfolio of properties for a variety of uses and that certain government financing options exist.

### 2. Puerto Rico Real Estate Law

#### A. Title to Property

##### (1) *The Civil Code*

Puerto Rico's property law is governed by the civil code. Under the code, all persons and juridical entities, whether Puerto Rican or not, may hold title to real estate in Puerto Rico. The Puerto Rico Constitution, however, prohibits juridical entities like corporations from engaging in the business of buying and selling real property as well as owning or having title to real property unless it is reasonably necessary to fulfill its purpose and limits the land holdings of agricultural enterprises to 500 acres.<sup>192</sup>

##### (2) *Joint Ownership* <sup>193</sup>

The civil code does not recognize the common law concepts of common ownership, such as joint tenancy or tenancy by the entirety. Instead, the civil code requires that joint ownership be governed by contract, with all owners' rights and obligations set forth in writing. Moreover, joint owners always retain the right to exit from common ownership, and they can generally force a division of the jointly owned property.<sup>194</sup>

##### (3) *Condominiums* <sup>195</sup> and *Timeshares* <sup>196</sup>

Puerto Rico has separate legislation governing condominiums and timeshares. The law governing condominium properties applies to apartments and common elements whose owner(s) expressly states, in a public deed, the desire to submit the property to the horizontal property regime and records this deed in the Registry of Property. The condominium law can apply to real estate located on land whose title belongs to someone else if the title owner of the land grants the lease, usufruct, or surface rights perpetually to the builder or the condominium tenant. Lastly, the title that sets forth the horizontal property regime has to state clearly and precisely the purpose and use of all areas within the property—including the apartments and common areas—because, within in a single condominium, portions of the property can be dedicated to commercial use while others are dedicated to residential use. Once the property is submitted to the horizontal property regime, the apartments can be owned and possessed independently of the rest of the condominium property, with each apartment owner having an exclusive right over his property and a share, with other co-owners, in the common elements of the property.

<sup>191</sup> Law 161 of 2009 creates a new permits system; the new process will be effective as of December 1st, 2010.

<sup>192</sup> P.R. Const. Art. VI, § 14.

<sup>193</sup> 31 L.P.R.A. § 1271-1285.

<sup>194</sup> There are two exceptions to this rule. First, a contract governing joint ownership of real property can stipulate that the property must remain undivided for up to ten years (a period that can be extended by mutual agreement). 31 L.P.R.A. § 1279. Second, an attempt to divide a jointly owned property can be blocked where the division would make the property unsuitable for its anticipated use. 31 L.P.R.A. § 1280.

<sup>195</sup> 31 L.P.R.A. §§ 1291-1294e.

<sup>196</sup> 31 L.P.R.A. §§ 1295-1303.



## **B. The Public Registry of Property <sup>197</sup>**

The Registry of Property is an archive that contains all recorded documents and/or contracts pertaining to the ownership and other rights over real property in Puerto Rico. The recordation of a property's history in the Registry of Property is a safeguard for those interested in purchasing, leasing, or acquiring any rights over a particular property. Anyone interested in purchasing a property in Puerto Rico should first obtain a title study from a reputable title search entity or party stating the status of such property's recordation in the Registry. This information will provide the purchaser with the title holder's name, the property description, and any liens and encumbrances the property may have. Except in certain exceptional cases, anyone who purchases a property pursuant to the Registry will be protected from third parties alleging rights encumbering the property.

## **C. Buying and Selling Real Property**

The sale of real property is governed by the civil and commercial codes. Under the code, a purchase and sale agreement is perfected when the buyer and seller agree on both the thing being sold and the price; neither payment nor delivery is required. As a result, bills of sale are not typically used for real property transactions, and a statement signed by the parties attesting to the delivery of the property and receipt of the purchase amount suffices to evidence the transaction.

With respect to real property, however, the sale must also be evidenced by a public deed executed before a notary public and recorded in the Property Registry.<sup>198</sup>

As a general rule, the civil code imposes upon a property seller a warranty to the buyer regarding the legal and peaceful possession of the thing sold and that no hidden faults or defects exist. Nonetheless, it is typical for purchasers of real property to obtain title insurance.

## **D. Leasing Real Property**

Any person or entity can lease real estate in Puerto Rico via a private contract. The civil code states that any lease agreement may be terminated if the title holder sells the leased property unless the parties have executed a long-term lease (with terms of six years or more) via a public deed (which automatically allows the lessee to record the lease in the Property Registry) or the parties have mutually agreed, pursuant to a public deed, that the lease may be recorded in the Property Registry.

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<sup>197</sup> 31 L.P.R.A. §§ 1871-1875.

<sup>198</sup> Public deeds should be utilized not only for real property sales, but also for mortgages, trusts, and long-term leases (with terms of six years or more). Moreover, long-term leases that are executed in a public deed can be recorded in the Registry. This is important; leases not recorded in the Registry are invalidated if the leased property is purchased by a third party. Public deeds for any type of real estate transaction must be prepared by a notary public which in Puerto Rico can only be a lawyer who passes a notary licensing exam. Deeds executed outside of Puerto Rico are valid in Puerto Rico if (1) they meet the same requirements as Puerto Rico deeds or (2) they meet the requirements for deeds established by the law of the jurisdiction where the deed is executed and the document is then "protocolized," or converted to Puerto Rico deed.



### 3. Zoning

The use of land in Puerto Rico is subject to zoning restrictions, and a property's zoning designation determines the permissible uses for the property. The Puerto Rico Planning Board (Junta de Planificación) has jurisdiction over zoning in Puerto Rico and uses zoning to establish the parameters, guidelines, and rules on how and where specific social and economic activities will be permitted. Puerto Rico has zoning maps that show the various zoning districts around the island.

The following are Puerto Rico's zoning designations:

DISTRICT	NAME	DISTRICT	NAME
UR	Developable Land	CT-I	Commercial Tourist-Intermediate
R-I	Intermediate Residential	AD	Developed Areas
R-A	High Density Residential	A-P	Agricultural-Productive
R-ZH	Residential-Historic Zone	A-G	Agricultural-General
RC-M	Residential Commercial-Mixed Use	R-G	Rural-General
C-L	Light Commercial District	B-Q	Forests
C-I	Intermediate Commercial	CR	Conservation of Resources
C-C	Commercial Center/ Mall	CR-C	Conservation of Resources-Streams
RC-E	Recreational Commercial-Extensive	CR-A	Conservation of Resources-Archaeological
I-L	Industrial-Light	SH	Historic Sites
I-P	Industrial-Heavy	DS	Selective Development
DT-G	Dotational General	DTS	Selective Tourist Development
DT-P	Dotational-Park	PP	Public Beaches
M	To be improved	PR	Preservation of Resources
RT-I	Residential Tourist-Intermediate	RE	Scenic Route
RT-A	Residential Tourist-High Density	ZE	School Zone
CT-L	Commercial Tourist-Light		

#### A. Site Consultations

Anyone seeking to develop a real estate project should request a site consultation from the Planning Board. This is the procedure by which the Planning Board determines whether:

- a proposed land use that is not typically permissible under applicable rules that apply to a zoned area can be considered;
- projects or activities that are permitted in the zoning district can be permitted at an even higher density or intensity;
- to permit projects that are regional in character or that otherwise fall within the Planning Board's authority;



- to permit proposed land uses in areas that have not yet been zoned and over which the Planning Board has retained exclusive jurisdiction; or
- to permit public improvements, except those that are exempt from the government's jurisdiction and those delegated to the Rules and Permits Administration (ARPE) by special resolution of the Planning Board.

The Planning Board uses a computer program called RadiPublicador to handle site consultations. RadiPublicador can be found on the Planning Board's website.<sup>199</sup> It contains a Help Manual with instructions for submitting site consultation requests. Generally, however, the following documents must be provided with a site consultation:

- **Form JP-31-A.** This form contains all the necessary information for the presentation of a site consultation. Once the required information has been provided, this form will be automatically generated through RadiPublicador.
- **Original Explanatory Memorandum.** This document provides a general description of (1) the land, including its location, size, current zoning and uses, and available infrastructure (water, sewer, electricity, access roads) and (2) the proposed project, including the number and size of the tracts of land to be created, and the characteristics of any buildings or structures contemplated. All requested exemptions should be justified and the benefits of the proposed project to the community identified.
- **Evidence of Ownership.** Where the property is in probate, a copy of an Heirs Declaration must be filed as well. To demonstrate ownership, any of the following documents—notarized, certified, and signed—may be submitted: a sales deed; property registry certification; certification by the director of a government agency or municipal mayor describing the land and indicating that the proponents are the owners thereof; or an option contract or rental agreement indicating that the proponents will obtain the permits required to develop the property.
- **Authorization Letter from the Land Owners.** The authorization letter is valid for ninety (90) days after signed and must include the owner's postal address. Where the property is in probate, the letter must be signed by all heirs, and the heirs must have a legally authorized representative. Where the land is owned by a corporation, a corporate resolution authorizing the site consultation must be submitted.
- **Copy of ARPE's Agreements.** The Consultation must include documents showing ARPE's prior approval of the previous division of lots or a property registry certification showing the prior subdivision of the original lot.
- **Plans of the Land to be Developed** in scale of 1:2,000 to 1:10,000, specifying the scale used, lot size, topography (indicating water streams, natural drains, swamps and previous flood levels), structures/buildings, businesses, roads, existing easements, etc. The full names and professional license numbers of all engineers, architects, plan drawers, etc. who participated in the preparation of the plans must be included.

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<sup>199</sup> See <http://www.jp.gobierno.pr/>.



- **Graphic Plans of the Proposed Project in 1:2,000 Scale.** The proponent must provide plans showing: the project's access to a public road; a table indicating the number of subdivided lots, each lot's size, the total land area, and the segregation of lots by previous divisions. The number of units will depend on the type of project that is being constructed. If it's a residential project the number of units will be determined by the houses, and a commercial project the number of units will be calculated based on footage of construction. The plan must also show all properties adjoining the parcel and their owners' information. Finally, the plans should show the full names and professional license numbers of all engineers, architects, plan drawers, and other professionals who participated in preparing the plans.
- **Current Zoning Map.** The proponent must submit the current zoning map (if the lot has been zoned) indicating the exact location of the property.
- **Property Tax Map.** The proponent must submit a map showing the property tax number from the Municipal Taxes Collection Center indicating the exact location of the property.
- Color Satellite Photo of the property in 1:10,000 scale.
- **Topographic Quadrangle.** The proponent must provide a topographic quadrangle map (in 1:2,000 to 1:10,000 scale, depending on the extension of the land being measured) specifying the scale used, illustrating the exact location of the lots, the exact length of roads in kilometers (if the proposed project is located in front of a road), or other reference points that will help locate and identify the subject site.
- **Polygon.** The proponent must provide a digital map, in DWG or DXF format, that includes an area forming a closed geometric figure (closed polygon).
- **Economic Feasibility Study.** For commercial projects that include a sales department, the proponent must provide an economic feasibility study.
- **Environmental Assessment (EA):** Proponents must submit Form Number R-003-1 of the Environmental Quality Board (EQB).
- Proponents must submit receipt of payment of ARPE's fees for \$75.00 for the environmental process.
- **Letter from the Housing Department, Municipality, and any Relevant Federal Agency.** For proposed residential projects of social interest (i.e., low-income housing), the proponent must provide a letter from one or more relevant agencies. The federal authority will typically be the Department of Housing and Urban Development. Depending the type of social interest that the project is intended to address, the petitioner must file a notice to the respective agency.
- **Endorsement from the Health Department.** For projects including health related facilities, the proponent must include an endorsement from the Health Department.
- **FORM JP-CED.** The proponent must include Form JP-CED, which certifies that digital documents are true and correct copies.

For additional information, see the JP and/or ARPE websites: [www.jp.gobierno.pr](http://www.jp.gobierno.pr) and [www.arpe.org](http://www.arpe.org).

## **B. Petition for an Amendment to a Zoning Map**

Where a property is zoned to support a proposed use, there is obviously no need for rezoning. But property can be rezoned to accommodate new uses, and, as the agency responsible for preparing and adopting Puerto Rico's zoning maps, the Planning Board is authorized to consider changes to the zoning of any given sector or piece of land, either on the request of an interested person or by its own initiative. Planning



Regulation #4 governs requests for zoning amendments made to the Planning Board. Pursuant to Regulation #4, petitions must be submitted using a computer program called RadiPublicador, which can be found on the Planning Board's website.<sup>200</sup> RadiPublicador contains a Help Manual with instructions for submitting petitions. Generally, however, the following documents must be provided with the petition:

- **FORM JP-250.** This is the basic form for submitting requests for zoning amendments; it is generated automatically through the RadiPublicador Program once the required information is completed.
- **Evidence of Waiver.** In cases where the request is presented through the authorization of a waiver, evidence of the waiver must be included. A waiver is required when the requested use does not fall within the minimum or maximum rating for the rezoning being requested.
- **Original Explanatory Memorandum.** Proponents must submit a signed explanatory memorandum that provides a full and clear description of the neighborhood; location; outstanding features; agricultural, historic, scenic, cultural or natural importance (if any); reasons supporting the zoning amendment; and a justification of how the amendment would benefit the community or neighborhood where the subject property is located.
- **Evidence of Ownership Notarized, Certified and Signed.** The proponent must provide evidence of ownership of the property, such as a notarized, certified, and signed sales deed, property registry certification, or heirs' declaration.
- **Authorization Letter.** The proponent must provide an original authorization letter from the landowners, which shall be valid for ninety (90) days after being signed and must include the owner's postal address. Where the property is in probate, the letter must be signed by all heirs, who must have a legally authorized representative. Where the land is owned by a corporation, a corporate resolution authorizing the Site Consultation and rezoning request must be submitted. Where the property is owned jointly, the proponent must obtain authorization from all owners.
- **Sworn Statement.** The proponent must provide a sworn statement attesting that the adjoining properties' postal addresses are correct.
- **Photograph.** The proponent must provide a photo of the front of each property to be amended (*i.e.*, where the main property entrance is located).
- **Color Satellite Photo.** The proponent must provide a color satellite photo, in 1:10,000 scale, identifying the property subject to the petition.
- **Current Zoning Map.** The petition must include a zoning map identifying the properties adjacent to the subject property.
- **Property Tax Map.** The petitioner must submit a map showing the Property's Tax Number From the Municipal Taxes Collection Center and identifying the current uses of properties adjacent to the subject property.
- **Polygon.** When the subject lot is not drawn on the zoning map, rating, or the corresponding cadastre map, a digital map, in DWG or DXF format, must be provided that includes an area forming a closed geometric figure (closed polygon).
- **FORM JP-CED.** The proponent must include Form JP-CED, which certifies that digital documents are true and correct copies.

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<sup>200</sup> See <http://www.jp.gobierno.pr/>.



- **Required Postage Payment.** The proponent must provide sufficient postage to mail the invitations to the public hearing and to mail a final resolution on the petition to each adjoining property owner and persons involved in the process.

Certain municipalities have achieved the status of Autonomous Municipality under Puerto Rico's Autonomous Municipality Act. These municipalities have and manage their own land use plan (Plan Territorial).<sup>201</sup> In these municipalities, zoning changes must be run through the municipal government pursuant to its own rules and procedures.

#### 4. Permits

Permits are required to construct buildings and establish businesses in Puerto Rico. These permits can be obtained from the Regulations and Permits Administration (ARPE). Conventionally, the request is submitted to ARPE for a determination that the proposed use complies with all applicable laws and regulations or for the evaluation and grant of variations or exceptions. Certain projects, identified in the construction codes, can be submitted by a licensed engineer or architect who certifies that the use complies with all applicable laws and regulations. This certificate approach requires compliance with submission procedures, but ARPE does not necessarily determine whether the use complies with applicable laws and regulations.

As mentioned above, certain municipalities have their own land use plan. As with zoning, these municipalities are authorized to handle permitting for projects within their territory. They issue the same permits, but they utilize their own forms and procedures. But where ARPE is the permitting agency, the following permitting requests require the submission of the specified documents.

##### A. Documents required for a Special Consultation <sup>202</sup>

- Evidence of ownership or lease. For leased property, the lease must be accompanied by an authorization from the owner to establish the requested use.
- Number of land tax identification number (cadastre) (if the inquiry is about a specific property).
- ARPE Service Request (ARPE Form 15.201).
- Application for Special Consultations (ARPE Form 15.70 and/or explanatory memorandum).
- Payment (Administrative Order 2009-13 of November 24, 2009).

##### B. Documents Required for an Environmental Assessment

- Evidence of ownership or lease. For leased property, the lease must be accompanied by an authorization from the owner to establish the requested use.
- Number of land tax identification number (cadastre) (if the inquiry is about a specific property).
- ARPE Service Request (ARPE Form 15.201).
- Environmental Form (ARPE Form 15.204 form for cases that present a significant environmental impact, or ARPE Form 15.209A for categorical exclusions as identified in Resolution R-03-30-8 of October 8, 2003 by the EQB).
- Payment (Administrative Order 2009-13 of November 24, 2009).

<sup>201</sup> San Juan, Guaynabo, Caguas, Carolina, Ponce, Cidra, Canóvanas, Cayey and Mayagüez have their own land use plans.

<sup>202</sup> A "special consultation" is essentially an optional request for guidance from ARPE, which will respond with detailed, step-by-step instructions for the requesting party.



### **C. Documents Required for a Conventional Use Permit (applies to existing structures)**

- Evidence of Ownership or Lease. For leased property, the lease must be accompanied by an authorization from the owner to establish the requested use.
- Number of land tax identification number (cadastre) (if the inquiry is about a specific property).
- ARPE Service Request (ARPE Form 15.201).
- Application for conventional use permit (ARPE Form 15.9B).
- Explanatory memorandum.
- Evidence of the environmental assessment has been submitted.
- An endorsement from the P.R. Fire Department and Health Department.
- Payment (Administrative Order 2009-14 of January 7, 2010).

### **D. Documents Required for a Certificate Use Permit (applies to structures that have been built using a Certificate Building Permit)**

- ARPE's Service Request (ARPE Form 15.201).
- Use Permit Application ARPE Form 15.9.
- Checklist (ARPE Form 15.202).
- Latest Inspection Certification for building works, in stages.
- Evidence of final endorsement of agencies, if applicable.
- Payment (Administrative Order 2009-13 of November 24, 2009).

### **E. Documents Required for a Building Permit for Projects Under \$ 15,000**

- Evidence of Ownership or Lease. For leased property, the lease must be accompanied by an authorization from the owner to establish the requested use.
- Number of land tax identification number (cadastre) (if the inquiry is about a specific property).
- ARPE Service Request (ARPE Form 15.201).
- Building Permit Application (ARPE Form 15.2).
- Evidence of the environmental assessment has been submitted.
- Project drawings.
- Evidence that the professional who made the plans is an active member of the College of Engineers and Surveyors of Puerto Rico and/or the College of Architects and Landscape Architects of Puerto Rico.
- Copy of permit issued by the Board of Examiners for Engineers and Surveyors of Puerto Rico or the Board of Examiners of Architects and Landscape Architects of Puerto Rico, which allows professionals to sign and seal documents.
- Stamps from the College of Engineers and Surveyors of Puerto Rico and/or College of Architects and Landscape Architects of Puerto Rico in the amount of one dollar (\$1.00) per thousand dollars (\$1,000) of estimated costs. In addition, the developer must pay five dollars (\$5.00) per thousand dollars (\$1,000) of estimated costs under Administrative Order 2009-13 of November 24, 2009.
- Estimated construction costs.



## **F. Documents Required for the Installation of Signs or Advertisements**

- Evidence of Ownership or Lease. For leased property, the lease must be accompanied by an authorization from the owner to establish the requested use.
- Number of land tax identification number (cadastre) (if the inquiry is about a specific property).
- ARPE Service Request (ARPE Form 15.201).
- Filing Application for Banners / Ads (ARPE Forms 15.10 and 15.10A).
- Letterer License Copy.
- Copy of Use Permit.
- Payment (Administrative Order 2009-13 of November 24, 2009).

## **G. Documents Required for Transactions of Land for Public Projects**

- Evidence of Ownership or Lease. For leased property, the lease must be accompanied by an authorization from the owner to establish the requested use.
- Number of land tax identification number (cadastre) (if the inquiry is about a specific property).
- ARPE Service Request (ARPE Form 15.201).
- Land Transaction Request for Public Projects (ARPE Form 15.68).
- Project Drawings
- Owner letter authorizing the Engineer or Surveyor to submit this application.
- Explanatory memorandum on the draft to be submitted.
- Evidence of the environmental document process of the project to be submitted.
- Evidence that the professional who made the plans is an active member of the College of Engineers and Surveyors of Puerto Rico and the College of Architects and Landscape Architects of Puerto Rico.
- Copy of permit issued by the Board of Examiners for Engineers and Surveyors of Puerto Rico or the Board of Examiners of Architects and Landscape Architects of Puerto Rico, which allows professionals to sign and seal documents.
- Payment (Administrative Order 2009-14 of January 7, 2010).

## **H. Documents Required for a Demolition Permit and/or Relocation of Buildings and Structures**

- Evidence of Ownership or Lease. For leased property, the lease must be accompanied by an authorization from the owner to establish the requested use.
- Number of land tax identification number (cadastre) (if the inquiry is about a specific property).
- ARPE Service Request (ARPE Form 15.201).
- Demolition Permit Application (ARPE Form 15.50).
- Project Drawings.
- Certification of No Asbestos and/or Lead (ARPE Form 15.205).
- Owner letter authorizing the removal or demolition.
- Explanatory memorandum.
- Evidence of environmental compliance of the project.
- Endorsement of the Institute of Puerto Rican Culture and the Municipality.
- Payment (Administrative Order 2009-14 of January 7, 2010).



## **I. Documents Required for Preliminary Development and/or with Consultation Draft Approved for Location by the Puerto Rico Planning Board**

- Evidence of Ownership or Lease. For leased property, the lease must be accompanied by an authorization from the owner to establish the requested use.
- Number of land tax identification number ("cadastre") (if the inquiry is about a specific property).
- ARPE Service Request (ARPE Form 15.201).
- Request for Approval of Preliminary Development (ARPE Form 15.12).
- Request for Consultation on Draft Construction Compliance (ARPE Form 15.13).
- Form Requesting Exceptions and/or Variations (ARPE Form 15.176 Annex I).
- Checklist and all required documents (ARPE Form 15.176).
- Project Drawings.
- Planning Board Resolution for the project.
- Explanatory memorandum.
- Evidence that the professional who made the plans is an active member of the College of Engineers and Surveyors of Puerto Rico and the College of Architects and Landscape Architects of Puerto Rico.
- Copy of permit issued by the Board of Examiners for Engineers and Surveyors of Puerto Rico or the Board of Examiners of Architects and Landscape Architects of Puerto Rico, which allows professionals to sign and seal documents.
- Owner letter authorizing the Engineer or Surveyor to submit this application.
- Payment (Administrative Order 2009-13 of November 24, 2009).

## **J. Documents Required for Submission of Building Drawings to Benefit from the Horizontal Property Regime (Condominium Law)**

- Evidence of Ownership or Lease. For leased property, the lease must be accompanied by an authorization from the owner to establish the requested use.
- Number of land tax identification number ("cadastre") (if the inquiry is about a specific property).
- ARPE Service Request (ARPE Form 15.201).
- Application for Certification for Project Horizontal Property Regime (ARPE Form 15.41).
- Evidence that the professional who made the plans is an active member of the College of Engineers and Surveyors of Puerto Rico and the College of Architects and Landscape Architects of Puerto Rico.
- Copy of permit issued by the Board of Examiners for Engineers and Surveyors of Puerto Rico or the Board of Examiners of Architects and Landscape Architects of Puerto Rico, which allows professionals to sign and seal documents.
- Owner letter authorizing the Engineer or Surveyor to submit this application.
- Payment (Administrative Order 2009-13 of November 24, 2009).



### **K. Documents Required for Submission of a Preliminary Development and/or Draft Construction Certificate**

- Evidence of Ownership or Lease. For leased property, the lease must be accompanied by an authorization from the owner to establish the requested use.
- Number of land tax identification number (“cadastre”) (if the inquiry is about a specific property).
- ARPE Service Request (ARPE Form 15.201).
- Application for Development and Preliminary Approval (ARPE Form 15.176).
- Project Drawings.
- Form requesting exceptions and/or variations (ARPE Form 15.176 Annex I).
- Checklist and all required documents (ARPE Form 15.176A).
- Explanatory memorandum.
- Evidence that the professional who made the plans is an active member of the College of Engineers and Surveyors of Puerto Rico and the College of Architects and Landscape Architects of Puerto Rico.
- Copy of permit issued by the Board of Examiners for Engineers and Surveyors of Puerto Rico or the Board of Examiners of Architects and Landscape Architects of Puerto Rico, which allows professionals to sign and seal documents.
- Owner letter authorizing the Engineer or Surveyor to submit this application.

### **L. Documents Required for Submission of a Building Permit Certificate (applies to structures to be built on vacant land and/or additions to existing structures)**

- Evidence of Ownership or Lease. For leased property, the lease must be accompanied by an authorization from the owner to establish the requested use.
- Number of land tax identification number (“cadastre”) (if the inquiry is about a specific property).
- ARPE Service Request (ARPE Form 15.201).
- Building Permit Application (ARPE Form 15.9B).
- Checklist and all required documents (ARPE Form 15.4).
- Project Drawings.
- Evidence of environmental compliance of the project.
- Estimated construction costs.
- Evidence that the professional who made the plans is an active member of the College of Engineers and Surveyors of Puerto Rico and the College of Architects and Landscape Architects of Puerto Rico.
- Copy of permit issued by the Board of Examiners for Engineers and Surveyors of Puerto Rico or the Board of Examiners of Architects and Landscape Architects of Puerto Rico, which allows professionals to sign and seal documents.
- Owner letter authorizing the Engineer or Surveyor to submit this application.
- Stamps from the College of Engineers and Surveyors of Puerto Rico and/or College of Architects and Landscape Architects of Puerto Rico in the amount of one dollar (\$1.00) per thousand dollars (\$1,000.00) of estimated costs. In addition, the proponent must pay five dollars (\$5.00) per thousand dollars (\$1,000.00) of estimated costs (Administrative Order 2009-13 as of November 24, 2009).

This list is not exhaustive, and there are other types of permits that have their own specific requirements. All forms to be used in the submitting process are available on the website [www.arpe.org](http://www.arpe.org).



## 5. Free Trade Zones

Puerto Rico offers importers the option of operating under foreign-trade zone (FTZ) procedures within all of its municipalities. FTZs are restricted-access sites legally considered outside the U.S. customs and border protection (CBP) territory for purposes of tariff laws and customs entry procedures. They are designed to promote foreign commerce, create employment, and attract trade investment to the United States and its territories.

In order to qualify for FTZ status, a company must import dutiable goods (raw materials, components, or finished goods) from at least one foreign country. The property where the operation will take place must be designated as part of a general-purpose zone (a designated area containing multiple users performing different qualified activities) or as a special-purpose subzone.

Within an authorized FTZ, businesses can warehouse and distribute goods and engage in manufacturing and processing, and foreign and domestic merchandise of every description (except as prohibited by law) may be stored, exhibited, broken up, repacked, assembled, distributed, sorted, graded, cleaned, mixed with foreign or domestic merchandise, or otherwise manipulated, exported, destroyed, or sent into customs territory. If a significant product transformation occurs, then a manufacturing authority must be requested.

The benefits of operating within an FTZ include:

- deferment of custom duties on goods while those goods are in the zone or subzone;
- deferment of local excise taxes on goods while they are in the zone or subzone;
- inverted-tariff opportunities (at the time of entry to the US territory, the importer has the choice of paying duties either at the rate applicable to the foreign material in its condition as admitted into a zone, or if used in manufacturing or processing, at the emerging product rate);
- no duty owed on scrap, waste or damaged imports;
- zone-to-zone transfers (transfers of merchandise between zones are treated as foreign imports, allowing deferment of the corresponding duty while in the zone); and
- value-added to the merchandise is not subject to tax imposition.

FTZ operators can also obtain certain tax advantages in Puerto Rico, including:

- cash flow advantages due to the deferment of custom duties and local excise tax (vehicles and petroleum derivatives);
- 100% exemption on tangible property and property and equipment used for the operation of the activated area;
- 60% exemption on appraisal value of the designated intangible property and activated as a zone or subzone; and
- 100% exemption on exports from a zone or subzone towards a foreign country.



To obtain FTZ status, an enterprise must import merchandise, raw materials, components or finished goods as part of its regular operations. A feasibility study must be done to determine a company's eligibility, and accepted companies must provide an annual report of their activity in the FTZ. Moreover, the company must provide an endorsement of any of Puerto Rico's three authorized FTZ grantees. The main responsibilities of a grantee are to:

- provide and maintain facilities in connection with a zone;
- operate the zone as a public utility with fair and reasonable rates and charges for all zone services and privileges;
- report a full statement of operations held in the zone project, to the FTZ Board;
- maintain books, records and accounts in accordance with stated provisions;
- apply to the Board for new projects, subzones and expansions of the zone project; and
- make written application to the Port Director for new zone operators and expanded operations.

In Puerto Rico, there are three FTZs:

#### **A. FTZ No. 7**

The Puerto Rico Industrial Development Company was authorized as the Grantee of FTZ No. 7 in 1960. Today, the zone is comprised of 4,666 acres of general purpose zone designated property throughout the island, plus 11 manufacturing subzones. FTZ No. 7 administrative division manages the grant, providing the following services (among others):

- feasibility study and pre-qualification of the company;
- elaboration and filing the designation application to the FTZ Board in Washington, DC;
- elaboration and filing of activation application to Customs and Border Protection (CBP);
- follow-up for compliance of regulations: FTZ Board, CBP, Grantee, and local agencies;
- continuing education for zone operators;
- identifies additional business opportunities within the zone operation; and
- state agent for PRIDCO's promotional process.

For more information, contact PRIDCO's FTZ Administrative Division at:

P. O. Box 362350  
San Juan, PR 00936-2350  
or  
PRIDCO Building  
355 Roosevelt Avenue, Suite 405  
Hato Rey, PR 00918  
Tel. (787) 758-4747



### **B. FTZ No. 61**

The Puerto Rico Trade Company was authorized as the Grantee of FTZ 61 in 1980 by Board Order No. 165. The zone commenced operations in 1986 at the International Trade Center (ITC) located in Guaynabo, PR. Today, the zone is comprised of 1,649 acres with zone designation with 691,000 square feet of warehousing facilities in Guaynabo and 419,000 square feet in Mayagüez. FTZ 61 provides the following services:

- JIT transport;
- distribution;
- logistics;
- storage;
- re-exports; and
- value-added activities.

For more information, contact the Trade Company's FTZ Administrative Division at:

Puerto Rico Trade and Export Company  
Real Estate & Foreign-Trade Zone  
P. O. Box 195009  
San Juan, PR 00919-5009  
Tel. (787) 294-0101

Or

International Trade Center – Road 165 Km. 2.4  
Pueblo Viejo Ward  
Guaynabo, PR 00968

### **C. FTZ No. 163**

Codezol, C.D. (Corporación para el Desarrollo de la Zona Libre de Ponce) was authorized as the Grantee of FTZ 163 in 1989. The zone is comprised of 694 acres of FTZ designated property in Ponce and other municipalities. Codezol offers:

- outdoor warehouse space to store merchandise;
- containers;
- equipment and vehicles;
- designated indoor warehousing facilities; and
- 3PL services.

For more information, contact CODEZOL at:

CODEZOL, CD  
P.O. Box 34129 / Ponce, PR 00734-4129  
3540 Santiago de los Caballeros Ave., Ponce Harbor  
Ponce, PR 00716-2011  
Tel. (787) 259-4445



## 6. Available Government Properties

A number of government agencies own real property that they make available to investors.

### A. The Land Administration

The Puerto Rico Land Administration is a public corporation that forms part of the Department of Economic Development and Commerce. It controls a portfolio of land and buildings that it is empowered to sell, lease, or develop. The procedures for leasing, sale and transfer of real rights are governed by the Regulation of the Puerto Rico Land Administration for Transactions of Real Rights over Properties, number 7647, approved by the State Department on December 23, 2008.

In addition, the Land Administration is authorized to acquire property through expropriation for itself and for the projects of other governmental entities that lack this power.

### B. The Industrial Development Company (PRIDCO)

PRIDCO can offer investors a range of real estate assets for industrial, commercial, and institutional uses, including ready-for-development green-field sites and buildings ranging in size from 4,000 to over 100,000 square feet.

To lease a PRIDCO property, an investor should identify the property to PRIDCO's real estate department, reserve the property with a one-month deposit, provide information to PRIDCO about the proposed activity for evaluation, and negotiate and execute a lease agreement. To purchase a property, the investor should identify the property to PRIDCO's real estate department, provide a \$10,000 initial deposit to reserve the property and perform a professional appraisal and other studies, negotiate the sale for approval by PRIDCO's board of directors, and, upon board approval, provide a further deposit and arrange closing with PRIDCO's legal department. Investors can obtain information through PRIDCO's website.<sup>203</sup>

### C. The Puerto Rico Tourism Company

The Puerto Rico Tourism Company maintains an inventory of properties with tourism development potential. Those properties include green sites, sites with permitted-but-not-financed projects, and already-built projects in need of refurbishment and/or new operators. PRTC is developing a GIS-based Tourism Development Properties Inventory that will be available online at PRTC's institutional website. The inventory will contain basic physical and planning data for each property, as well as owner information.

### D. The Puerto Rico Trade and Export Company

The Puerto Rico Trade and Export Company maintains an inventory of commercial properties for rent throughout the island. These properties include Foreign Trade Zones, warehousing, and distribution and logistics facilities. The properties are strategically positioned throughout the San Juan metro area and the south and west coasts near major business or logistics hubs. They are available at competitive rates.

The Puerto Rico Trade and Export Company also maintains the Puerto Rico World Trade Center San Juan franchise. Participants have access to the most innovative ideas in international business, international marketing channels, and the benefits and services of the World Trade Center Association.

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<sup>203</sup> [http://207.150.251.124/index.php?option=com\\_wrapper&Itemid=687](http://207.150.251.124/index.php?option=com_wrapper&Itemid=687).

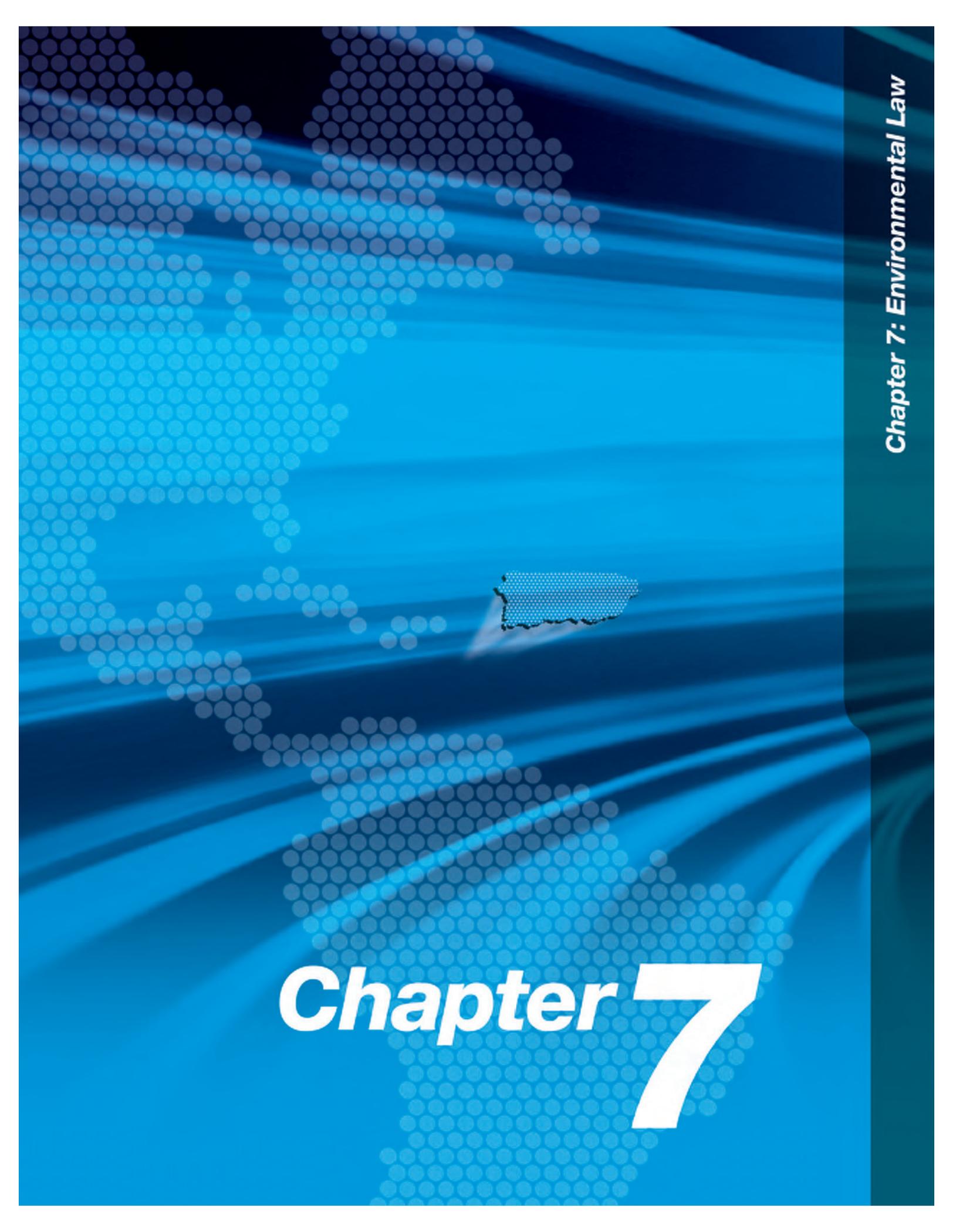


## E. The Land Authority

The Agricultural Land Authority of Puerto Rico (ATPR) is a public corporation dedicated to developing Puerto Rico's agricultural and agro-industrial sector. Part of this mission involves preserving and managing high-value agricultural lands and making them available to farmers through economically viable leases for the development of agricultural projects. The Authority can lease agricultural land for a wide range of agricultural activities, and any person or juridical entity that presents a viable development proposal and has the means to execute it can apply.

The Authority has nine regional areas and each has an inventory of agricultural land and structures:

Barceloneta y Arecibo	Vega Baja Unit	(787) 807-0048
Florida, Manatí & Vega Baja	Vega Baja Unit	(787) 807-0048
Vega Alta, Dorado, Toa Alta & Toa Baja	Vega Baja	(787) 807-0048
Carolina, Loíza, Canóvanas, Río Grande, Luquillo	Main Office, Santurce	(787) 723-9090 x 2316
Fajardo, Humacao, Naguabo, Yabucoa, Maunabo, Ceiba & Vieques	Main Office, Santurce	(787) 723-9090 x 2317
Santa Isabel	Garden Produce Program, Santa Isabel	(787) 845-7000, 845-7010
Salinas, Arroyo, Guayama, Juana Díaz & Ponce	Garden Produce Program, Santa Isabel	(787) 845-7000; 845-7010
Sabana Grande, Guánica, Lajas, San Germán & Cabo Rojo	Santa Rita, Guánica, Unit	(787) 821-2510, (787) 821-2560
Mayagüez, Añasco, Aguada, Aguadilla, Moca, San Sebastián, Lares & Hatillo	Vega Baja Unit	(787) 807-0048



**Chapter 7**



# Chapter 7

## **Chapter 7: Environmental Law**

### **1. The Legal Framework and Relevant Agencies**

As a territory of the United States, Puerto Rico is subject to both the same federal environmental laws and regulations that apply on the U.S. mainland and local environmental laws and regulations. The U.S. Environmental Protection Agency (EPA) is charged with managing and enforcing federal environmental programs in Puerto Rico, although it has delegated certain of these responsibilities to the Puerto Rico Environmental Quality Board (EQB).

The EQB is Puerto Rico's primary environmental policy-making body. Its mandate is to protect and conserve the environment with policies that prevent and undo environmental degradation while balancing environmental protection with economic development. To achieve this objective, the EQB issues regulations establishing standards designed to minimize environmental harm and control activities that cause pollution. The EQB can enforce these regulations with fines up to \$25,000.00 (\$50,000.00 in absentia) for each violation (and each day during which an offense occurs may be considered a separate violation) and by suspending, amending or revoking any permit, certification, approval or other authorization.

The Puerto Rico Department of Natural and Environmental Resources (DNER) is charged with implementing the environmental policy established by the EQB by creating programs for the use and conservation of the natural resources of Puerto Rico based on the standards established by the EQB. Among other things, it has jurisdiction over: (a) any activity that calls for the extraction, excavation, removal and dredging of the earth's crust (components such as sand, gravel, stone, soil, silica, calcite, clay and any other similar components) that is not regulated as a mining operation, whether on public or private land; (b) the maritime terrestrial zone; and (c) tree cutting, pruning and removal.

Although the EQB and DNER are Puerto Rico's principal environmental agencies, other agencies are charged with regulating specific environmental issues, such as hazardous materials transport, land use planning, and construction, including the U.S. Department of Transportation, the Puerto Rico Department of Transportation and Public Works, the P. R. Planning Board, the P.R. Permits and Regulations Authority, and the various Autonomous Municipalities.

### **2. Key Federal Environmental Statutes**

#### **A. Resource Conservation and Recovery Act (RCRA)**

RCRA's primary goal is to control the generation, transportation, storage, treatment and disposal of hazardous waste. The administration of RCRA has been delegated to a number of states by statute and, therefore, the states regulate most aspects of hazardous waste management within their borders. By statute, the disposal of hazardous waste is prohibited except in accordance with a permit.



## **B. The Comprehensive Environmental Response, Compensation and Liability Act (CERCLA)**

CERCLA, or Superfund as it is commonly called, was enacted in 1980 to provide for the clean-up of heavily contaminated areas by giving the EPA a vehicle to recover for damage to natural resources caused by hazardous substance releases. Specifically, CERCLA allows the government and private parties to sue “potentially responsible parties” (PRPs) for reimbursement of clean-up costs caused by releases of hazardous substances. Liability is strict, joint and several, with little or no regard for causation. By statute, there are three categories of persons liable for clean-up costs:

- “Owners or Operators” of the Contaminated Facility: A “contaminated facility” is virtually any place in which a hazardous substance is found. The current owner or operator is liable, regardless of when the hazardous substance was disposed of at the facility or whether the present owner or operator did anything to contribute to the release.
- “Owners or Operators” of the Facility at the Time of Release of the Hazardous Substance: Any person who contracted or arranged to have hazardous substances taken to, disposed of, or treated at a facility. This category generally applies to generators and manufacturers.
- Transporters of Hazardous Substances.

There are limited defenses under Superfund that are narrowly construed. A PRP can escape liability if it can establish that the hazardous substance release was caused solely by an act of war, an act of God, or an act of unrelated third parties. This latter “third party” defense does not apply if the damage from hazardous substances was caused by an employee or agent of the PRP, or a third party acting in connection with a contract with the PRP.

## **C. The Clean Air Act (CAA)**

The CAA regulates air pollutants under federal standards implemented and enforced by the states. The Act includes programs for acid rain control, stratospheric ozone protection, attaining the national ambient air quality standards (NAAQS) and reducing emissions of hazardous air pollutants.

Under the Act, air emissions are regulated through various controls. The EPA has issued NAAQS for six criteria pollutants: sulfur dioxide, particulate matter, nitrogen oxide, carbon monoxide, ozone and lead. The NAAQS are implemented through enforceable source-specific emission limitations and other air quality rules established by the states in implementation plans (SIPs), which are designed to “attain” or “maintain” NAAQS.

The CAA has established New Source Performance Standards (NSPS) that are technology-based emission standards for specific industry source categories. These standards are not dependent on the ambient air quality of an area and require new or modified stationary sources subject to a NSPS to employ the best available control technology.

Major sources that emit Hazardous Air Pollutants (HAPs) are required to develop technology-based standards consistent with “maximum achievable control technology” (MACT). Pollutants may be regulated under one or more of these standards.

The CAA, as amended, requires a new operating permit for all major air sources, with state administration and enforcement.



#### **D. The Clean Water Act (CWA)**

The CWA regulates the discharge of pollutants into all navigable waters. The CWA prohibits the discharge of any pollutant into the water of the U.S. except in compliance with a National Pollutant Discharge Elimination System (NPDES) permit. Permits are issued by either the state under an approved state program or by the EPA if the state program has not been approved. Puerto Rico does not have an approved program.

The permit limits are based upon EPA's effluent limitation regulations. The CWA effluent limitations for industrial discharges also specify standards for pre-treatment for those who discharge into a publicly owned treatment facility. EPA rules also cover permits for storm water discharges under the NPDES permit program.

Any project that envisions developing a property must commence by evaluating the site's zoning and use restrictions to ensure there is consistency between the zoning mechanism and what the property will be used for, in order to authorize the project. As part of a project's environmental due diligence a proponent must first prepare an Environmental Impact Review (EIR). No permits will be issued until the EIR is done.

### **3. Key Puerto Rico Environmental Statutes**

Puerto Rico's Environmental Public Policy Act deals primarily with the evaluation of environmental impacts. It typically requires an endorsement letter from a "lead governmental agency" to the EQB and is required as a precondition to obtaining other permits.

The Planning Board requires that a site consultation be made, when the proposed use of a project is inconsistent with current zoning.

The Regulations and Permits Administration also requires a consultation on conformity with the zoning regulation when a proposed project does not comply with certain provisions of the Zoning Regulation or Territorial Ordinance Regulation (if located within an Autonomous Municipality).

The environmental legal framework in Puerto Rico arises mainly from the Constitution of the Commonwealth of Puerto Rico and the Puerto Rico Environmental Public Policy Act and its enabling regulations. Environmental law in Puerto Rico also arises from the enabling laws and regulations of the Department of Natural and Environmental Resources (DNER), the Puerto Rico Aqueduct and Sewer Authority (PRASA), and the Puerto Rico Department of Health, among others. In addition, the Penal Code for Puerto Rico codifies four (4) environmental crimes: havoc (*estragos*), poisoning of waters for public use, environmental pollution and aggravated environmental pollution.<sup>204</sup>

In Puerto Rico, environmental and natural resource protection policies have a Constitutional rank. Specifically, Article VI, Section 19, of the Constitution of the Commonwealth of Puerto Rico provides that it is Puerto Rico's public policy to conserve, develop and use the natural resources of Puerto Rico in the most effective possible way for the benefit of the general welfare. The Puerto Rico Supreme Court has broadly interpreted this constitutional guarantee. See, *Misión Industrial v. J.C.A.*, 145 D.P.R. 908, 918 (1998); *Colón Cortes v. Pesquera*, 150 D.P.R. 724 (2000).

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<sup>204</sup> 33 L.P.R.A. §§4868-4871.



The Puerto Rico Environmental Public Policy Act, Act No. 416 of September 22, 2004<sup>205</sup>, establishes the organizational and jurisdictional legal framework for the Environmental Quality Board (EQB), which is the agency principally in charge of implementing the Constitutional mandate of Article VI, Section 19. Under this law, the EQB has also been designated as the Puerto Rico agency empowered to execute, receive, implement and administer the delegation, establish regulations, and implement related permitting programs for United States federal environmental laws, including the Clean Water Act<sup>206</sup>, the Clean Air Act<sup>207</sup>, the Solid Waste Disposal Act, as amended by the Resource Conservation and Recovery Act<sup>208</sup>, the Comprehensive Environmental Response, Compensation and Liability Act<sup>209</sup>, as well as any other federal legislation that is related to the environment and natural resources, among others<sup>210</sup>. As of this date, several programs under these federal laws have been delegated to EQB for implementation and enforcement, such as the Title V program under the CAA (governing major air emissions sources); the Underground Storage Tank program under RCRA; and the Underground Injection Control program under the Safe Drinking Water Act. With respect to those programs for which there has been no delegation but the agencies have parallel regulatory programs, in many cases EPA and EQB have agreements to coordinate the enforcement and implementation of their regulations.

### **A. Regulation for the Control of Atmospheric Pollution**

The EQB's Regulation for the Control of Atmospheric Pollution (the Air Regulation) establishes requirements, standards, criteria and prohibitions related to air emission sources. The term "air emission source" is defined very broadly and covers practically any structure, building, facility or installation that emits or may emit any air pollutants (including dust, fumes, mist, smoke, other particulate matter, vapors, gases, odors, physical, chemical, biological, or radioactive substances, or any combination thereof). See, Air Regulation, Rule 102. Among other things, the Air Regulation requires permits for the construction and operation of air emissions sources and establishes general requirements regarding air emissions source monitoring, recordkeeping, reporting, sampling and testing for all regulated air emissions sources. *Id.*, Rules 103, 203 and 204.

### **B. EQB Regulation for the Management of Non-Hazardous Solid Wastes**

The EQB's Regulation for the Management of Non-Hazardous Solid Wastes generally applies to the generation, collection, storage, management and disposal of non-hazardous solid waste.

### **C. EQB Underground Storage Tank Regulation**

The EQB's Underground Storage Tank Regulation (the UST Regulation) requires the owner of a UST to register its USTs with the EQB and to comply with specified operation, reporting and recordkeeping requirements. The UST Regulation was modelled after the federal RCRA UST counterpart regulations, and this federal program has been specifically delegated by EPA to EQB.

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<sup>205</sup> 12 L.P.R.A. §§8001 et seq. (Act 416)

<sup>206</sup> 33 U.S.C. §§1251 et seq. (CWA)

<sup>207</sup> 42 U.S.C. §§7401 et seq. (CAA)

<sup>208</sup> 42 U.S.C. §§6901 et seq. (RCRA)

<sup>209</sup> 42 U.S.C. §§9601 et seq. (CERCLA)

<sup>210</sup> 12 L.P.R.A. §8002g.



#### **D. EQB Underground Injection Control Regulation**

The EQB's Regulation for Underground Injection Control (the UIC Regulation) requires commercial establishments to obtain permits for the construction and operation of septic tanks (Class V, Type C1 wells) used for the underground injection or disposal of sanitary wastes. (As mentioned, the federal UIC program was delegated to EQB by EPA, and therefore, EQB has primary authority for its administration and enforcement.)<sup>211</sup>

#### **E. Water Pollution Prevention**

The EQB's Water Quality Standards Regulation (the WQS Regulation) classifies the waters of Puerto Rico based on their intended use, establishes general water quality standards for discharges into all such waters, and generally prohibits water pollution, among other things. The regulation, however, does not contain a permitting program regulating water discharges similar to the one established by EPA under the CWA. In light of this, EPA cannot and has not delegated its permitting program under the CWA- titled the National Pollutant Discharge Elimination System (NPDES) program- to EQB. Therefore, EPA has primary authority to administer and enforce the NPDES program in Puerto Rico.

#### **F. EQB Regulation for the Control of Hazardous Wastes**

The EQB's Regulation for the Control of Hazardous Waste governs the generation, management, treatment, storage and disposal of hazardous wastes; in essence, it governs all stages of the life of a hazardous waste. Its provisions are very similar to the federal counterpart regulations promulgated pursuant to RCRA. The RCRA hazardous waste program, however, has not been delegated to EQB. As such, EPA retains its jurisdiction to administer and enforce the RCRA hazardous waste program in Puerto Rico, and both the federal and local hazardous waste regulations are enforceable in Puerto Rico.

#### **G. Solid Waste Authority Recycling Requirements**

The Solid Waste Authority's Regulation for the Reduction, Reuse and Recycling of Solid Waste establishes that a private entity with more than ten (10) employees must retain an environmental coordinator and/or a working committee and prepare and implement a Recycling Plan. The Recycling Plan must include: (a) a commitment letter from the company's management establishing the responsibilities that it has taken upon itself in order to achieve the goals set in the company's Recycling Plan; (b) a description of the strategies and activities that will be developed to reach the goals and objectives established in order to reduce, reuse and recycle solid waste; (c) a description of the current practices regarding generation, management and disposal of its solid waste; (d) a description of the current recycling program, if any; (e) a description of educational activities for the implementation of the Recycling Plan; and (f) a description of the evaluation mechanisms to measure the progress regarding the implementation of the Recycling Plan, among other things.

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<sup>211</sup> Rules 101, 301(A)(5), 302 and 303.



## **H. DNER – Monitoring Wells**

The Law of Waters of 1976 <sup>212</sup>, and the DNER's Regulation for the Appropriation, Use, Conservation and Administration of the Waters of Puerto Rico (the Water Regulation) promulgated thereunder, requires permits for the construction and operation of environmental investigation or monitoring wells. Water Regulation, Article 10. A permit holder for a water well must submit copies of all of the water quality and extraction reports generated during the operation of the well, as they are generated.

## **I. PRASA Regulation for the Supply of Water and Sewer Service**

PRASA's Regulation for the Supply of Water and Sewer Service provides that no person may connect to PRASA's system without authorization from the agency. PRASA may require that a deposit or bond be posted to guarantee payment for water services. These regulations also require an industrial discharge permit (requiring pre-treatment) in cases where there are non-sanitary discharges that meet certain criteria (usually associated with industrial operations).

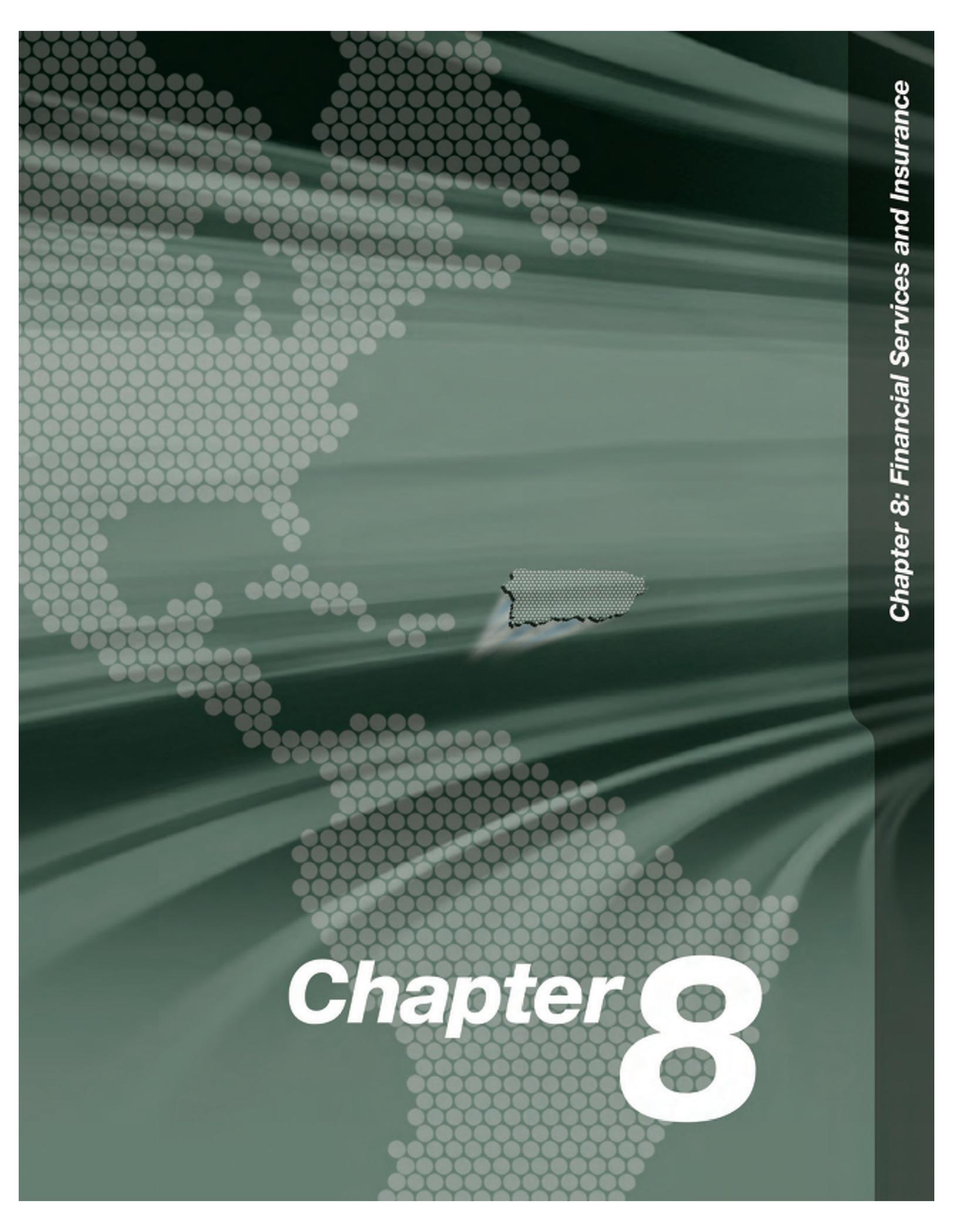
## **4. Environmental Permitting**

As discussed in Chapter 6, a construction permit is required for the construction of a new structure or remodeling of an existing structure, subject to certain exceptions. Once a construction permit is issued by ARPE, the EQB will issue a Consolidated General Permit. The Board will also issue permits for non-hazardous solid waste generating activities resulting from construction activities; a Control of Erosion and Prevention of Sedimentation Permit; a construction permit for air emission sources; an operating permit for air emission sources and others, depending on the nature of the project.

The US Environmental Protection Agency will require a stormwater construction permit for discharges associated with construction activities on a site exceeding one acre in size. The Department of Natural Resources & Environment requires an earth extraction permit for activities incidental to a construction project approved by ARPE.

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<sup>212</sup> 12 L.P.R.A. §§1115.



# *Chapter* **8**



# Chapter 8

## Chapter 8: Financial Services and Insurance

### 1. Government Banks

#### A. Government Development Bank (GDB) <sup>213</sup>

The GDB serves as the bank, fiscal agent and financial advisor to the Commonwealth of Puerto Rico and its instrumentalities. Its chief mission is to safeguard the fiscal stability of Puerto Rico and promote its competitiveness to transform Puerto Rico's economy. Although the GDB's primary client is the government of Puerto Rico, its subsidiaries and affiliates offer valuable services to the private sector.

##### **(1) Puerto Rico Housing Finance Authority (PRHFA) <sup>214</sup>**

The PRHFA provides mortgage loans to public and private housing developers for the construction, improvement, operation, and maintenance of rental housing for low to moderate income families. It also offers mortgage loans to citizens of low and moderate income. In addition, the PRHFA administers the Mortgage Loan Insurance Program (Act No. 87) and the housing subsidy program, *Key to your Home*.

The PRHFA is certified by the U.S. Department of Housing and Urban Development to administer the U.S. Housing Act Section 8 program in Puerto Rico and to act as an approved mortgager for both multi-family rental units and for single-family homes. It can issue bonds and notes to invest in federally insured mortgage loans on properties located in Puerto Rico and purchased by low and moderate-income families. In addition, it is an authorized issuer of Government National Mortgage Association (GNMA) mortgage-backed securities. The corporation is also Puerto Rico's State Credit Agency for the Low-Income Housing Tax Credit program under Section 42 of the U.S. Internal Revenue Code.

##### **(2) Puerto Rico Tourism Development Fund (TDF) <sup>215</sup>**

The TDF promotes Puerto Rico's hotel and tourism industry by making available direct loans, letters of credit, and guarantees to secure the private financing for new hotel development projects. The TDF has enabled the development of 20 projects with a total investment in excess of \$1.76 billion—of which the financing component totaled more than \$1.14 billion guaranteed by the Fund—representing over 4,500 hotel rooms and amenities and 9 golf courses around the island. The net assets of the Fund as of May 31, 2008 were approximately \$146 million.

##### **(3) Puerto Rico Industrial, Tourist, Educational, Medical and Environmental Control Facilities Financing Authority (AFICA) <sup>216</sup>**

AFICA is authorized to provide financing through tax-free bond issues for certain public and private projects that help to develop Puerto Rico's economy, including industrial, medical, educational, and tourist facilities. The money generated from the bonds is loaned to AFICA through a loan contract that is then issued to the project developer. This gives investors access to tax-free income and lower cost financing than typically available from private lenders. As of June 30, 2008, AFICA bond issues totaled more than \$6.0 billion, of which \$1.5 billion is still outstanding.

<sup>213</sup> <http://www.bgfpr.com/>

<sup>214</sup> <http://www.bgfpr.com/subsidiaries/housing-finance-authority.html>

<sup>215</sup> <http://www.bgfpr.com/subsidiaries/tourism-development-fund.html>

<sup>216</sup> <http://www.bgfpr.com/affiliates/afica.html>



## **B. Economic Development Bank (EDB) <sup>217</sup>**

As discussed in Chapter 4 above, the Economic Development Bank (EDB) offers financial support to small and mid-sized enterprises (SMEs) through asset based loans; participation loans with private financial institutions or under the SBA 504 loan guarantee program; mezzanine financing or capitalization loans; tourism projects loans; management buy-out loans; and credit lines for operational capital. The EDB's principal financing programs are:

- EDB-Direct Loan Program – Up to \$5,000,000 for SMEs;
- New Entrepreneur Program – Up to \$500,000 for startup SMEs;
- Woman Entrepreneur Program – Up to \$500,000 for woman-owned SMEs; and

Additional programs include:

- loans of up to \$5 million for labor intensive businesses;
- loans of up to \$20,000 for projects that promote the creation of self-owned businesses or self-employment for disadvantaged people in the municipality of Bayamón;
- loans of up to \$15,000 for projects that promote the creation of self-employment opportunities with the goal of combating extreme poverty or counteracting problems facing individuals or families of marginal economic means;
- loans of up to \$50,000 for existing and up to \$300,000 for new daycare centers;
- loans of up to \$100,000 to create microenterprises for residents of special communities;
- loans of up to \$100,000 for merchants, industrialists, and farmers to purchase emergency equipment, such as tanks, power plants, and other equipment, required to sustain the operation after an emergency or disaster;
- loan guarantees of up to \$1,000,000 to guarantee loans to inns, hostels, restaurants and all tourism-related businesses;
- loans of up to \$5 million for farmers for such things as the purchase of property, equipment, or animals for breeding or milk production, or for capital or facilities improvement, including loans of up to \$500,000 for women and young farmers for agribusinesses;

In addition to making direct loans, the EDB participates in orientation workshops for business in several forums throughout Puerto Rico, with the objective of providing the information required for the establishment or development of a business, from how to prepare a business plan, government incentives, financing alternatives and available services. Such workshops have the support and participation of private entities and government agencies, as well as key organizations in the development of small and medium-sized entrepreneurs.

The EDB's Economic Development Bank Capital Investment (EDBCI) component supports the Bank's mission in promoting the private sector economic development by investing in equity and other forms of capital start-up, early or later stage local enterprises or venture capital funds, for which the more traditional forms of obtaining financial resources are not accessible.

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<sup>217</sup> See <http://www.bdepr.org/bdepr/creditoempresarial.php> and <http://www.bdepr.org/bdepr/creditoagricola.php>



## 2. Private Financial Institutions

### A. Commissioner of Financial Institutions (OCIF)<sup>218</sup> (its Spanish acronym)

The OCIF is Puerto Rico's financial services sector regulator, and it is responsible for formulating public policy and regulating and auditing the sector's institutions and ensuring compliance with regulatory mandates. OCIF has jurisdictions over the following depository institutions, securities dealers, and non-depository institutions:

- Commercial Banks
- Cooperative Banks (Credit Unions)<sup>219</sup>
- Government Banks
- International Banking Entities
- Public Funds Depositories
- Broker-dealers (brokerage firms)
- Securities brokers or agents
- Investment advisors
- Investment companies
- Capital investment funds
- Mortgage institutions
- Personal property leasing companies
- Finance and Installment sales companies
- Financial intermediaries
- Small personal loan companies
- Credit restoration agencies
- Check cashing business
- Casinos
- Pawnbrokers
- Credit reporting agencies
- Agencies that transfer funds abroad

Among its various responsibilities, OCIF issues and renews licenses to regulated institutions, including the establishment and operation of local investment companies and venture capital firms, and issues administrative rulings and circular (opinion) letters on laws and regulations.

As of June 1, 2010, the following financial institutions were authorized to do business in Puerto Rico:

- 10 banks with 563 branches
- 18 money transfer agencies with 1,927 agents
- 33 international banking entities
- 37 investment companies
- 28 financial intermediaries with 115 branches
- 91 check changing offices with 86 branches
- 69 mortgage institutions with 344 branches
- 162 leasing companies with 30 branches
- 21 credit restoration agencies with 7 branches
- 179 pawn shops with 50 branches
- 22 casinos
- 106 financing companies with 216 branches
- 6 small personal loan companies with 268 branches
- 3 capital investment funds

<sup>218</sup> 7 L.P.R.A. § 2001-2020.

<sup>219</sup> Under Law Number 114 of 2001, the Puerto Rico Corporation for the Supervision and Security of Cooperatives (COSSEC) assumed exclusive supervision of credit unions (7 L.P.R.A. § 1334b). The Commissioner of the OCIF is a member of the Board of Directors of COSSEC.



These categories of institutions had the following assets and capital in Puerto Rico:

<b>Financial Sector Assets and Capital (As of December 31, 2009)</b>		
<b>Segment</b>	<b>Assets (millions)</b>	<b>Capital (millions)</b>
Commercial Banks	\$85,443	\$6,532
International Banking Entities (IBE)	51,970	10,209
Brokerage Firms	2,355	267
Mortgage Lenders	4,371	1,175
Investment Companies	13,650	7,701
Leasing Companies	2,318	381
Financing Companies	4,069	648
Government Banks	13,101	1,751
Small Personal Lending Companies	770	144
Capital Risk Funds	62	59
<b>TOTAL</b>	<b>\$178,109</b>	<b>\$28,867</b>

OCIF also ensures that the interests of the island's financial institutions' customers are adequately protected. The agency receives and addresses customer inquiries and complaints, in some cases directing complainants to the appropriate federal agency. It investigates violations of the laws and regulations that it administers and manages.



## B. Commercial Banks

As of September 30, 2009, commercial banks operating in Puerto Rico had the following assets and liabilities:

Bank	Assets	Net Loans	Deposits	Capital	# Branches
Bco. Popular PR	\$21,310,000	\$13,668,000	\$16,692,000	\$1,591,000	175
Scotiabank PR	1,826,705	1,552,468	1,352,041	166,816	17
Bco. Santander PR	6,660,877	5,497,186	4,495,393	636,658	54
BBVA PR	5,651,138	4,052,988	2,712,282	512,992	37
Firstbank PR	16,664,245	10,919,050	11,546,859	2,639,773	47
Westernbank PR	13,486,848	8,529,011	9,343,339	979,407	46
R&G Premier Bank PR	6,398,964	5,453,869	4,276,285	476,362	32
Doral Bank PR	9,034,155	4,914,285	4,245,609	530,639	36
Orientalbank PR	6,238,000	1,151,592	1,938,290	357,391	23
Eurobank PR	2,403,635	1,592,241	2,152,443	75,377	25
Bco. Cooperativo PR	512,978	171,224	331,399	76,396	1
Citibank N.A.	1,724,376	1,519,088	1,462,269	13,911	4
Nova Scotia PR	927,168	701,305	790,605	71,711	1
<b>Total</b>	<b>\$92,839,089</b>	<b>\$59,722,307</b>	<b>\$61,338,814</b>	<b>\$8,128,433</b>	<b>498</b>
1. This report includes banks organized under Puerto Rico's Banking Act (Act No. 55 of 1933) and the Cooperative Bank of Puerto Rico Act (Act No. 88 of 1966).					
2. These figures include International Banking Entities (IBE's) organized as Units under the International Banking Center Act (Act No. 52 of 1989).					

### (1) Puerto Rico Regulations

Commercial banks organized in Puerto Rico are governed by the Banking Law of Puerto Rico,<sup>220</sup> which establishes the organization and legal powers of banks and the requirements for the prudent and financially sound operation of such institutions, including reserve requirements, borrowing limits, and other solvency-related mandates.

<sup>220</sup> 7 L.P.R.A. §§ 1-278.



## **(2) Federal Regulations**

Depending on their particular circumstances, banks organized in Puerto Rico or doing business in Puerto Rico are also subject to various federal banking laws and the supervision of various federal banking agencies. The bank holding companies of financial institutions organized in Puerto Rico are subject to the federal law known as the Bank Holding Companies Act of 1956.<sup>221</sup> Additionally, banks organized under the Banking Law of Puerto Rico must insure their deposits with the Federal Deposit Insurance Corporation and are thus subject to the Federal Deposit Insurance Act.<sup>222</sup> They are also subject to the Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 and related regulations on interstate branching that apply to banks organized under the laws of the U.S. states.

Other federal laws that apply to banks organized and doing business in Puerto Rico are the Community Reinvestment Act, USA Patriot Act, and anti-money laundering laws. Similarly, banks operating in Puerto Rico are subject to the guidelines of the Treasury Department's Office of Foreign Assets Control to prevent transactions with certain foreign nations and individuals designated by this agency.

However, under the federal International Banking Law<sup>223</sup> (IBL), banks organized under the Banking Law of Puerto Rico are considered foreign banks. The main purpose of IBL is to regulate and institute procedures to establish a branch or agency of a foreign bank in any state of the United States or the District of Columbia.

## **C. Savings and Credit Unions of Puerto Rico**

### **(1) Introduction**

Savings and credit unions are financial institutions created under Puerto Rico's Credit Union Law.<sup>224</sup> Basically, a savings and credit union is an autonomous association of individuals that have united voluntarily to meet their economic, social, and cultural needs and aspirations through a jointly owned and democratically controlled enterprise. The main differences between a savings and credit union and a commercial bank are: (i) voluntary and open membership; (ii) democratic member control, a credit union has equal voting rights among its members (one member, one vote); (iii) members' economic participation, they contribute equitably to the capital of the union and can receive limited compensation, if any, on capital subscribed as a condition of membership; (iv) education, training and information for their members; (v) concern for the community, as credit unions work for the sustainable development of their community; and (vi) credit unions offer interest lower than what the market is offering. As of September 30, 2009, there were 122 credit unions operating throughout the island. Credit Unions can offer essentially the same wide range of personal and commercial financial services as commercial banks.

Credit unions are governed by all state and federal laws applicable to other financial institutions, such as banking, as well as by state regulations specifically directed to credit union operations. These regulations safeguard the financial and operational health of the credit unions and the interests of their partners and customers.

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<sup>221</sup> 12 U.S.C.A. §§ 1841-1850.

<sup>222</sup> 12 U.S.C.A. §§ 1811-1835a.

<sup>223</sup> 12 U.S.C.A. §§ 3101-3111.

<sup>224</sup> 7 L.P.R.A. §§1361-1371b.



**(2) Corporation for the Supervision and Insurance of Puerto Rico  
Credit Unions (COSSEC)<sup>225</sup> (its Spanish acronym)**

COSSEC supervises Puerto Rico's savings and credit unions. Among other things, COSSEC monitors the sector in a comprehensive and consolidated way, ensures the financial solvency of credit unions and the rights and privileges of credit union members, and provides credit unions with insurance for shares and deposits (up to \$250,000.00 per depositor). To fulfill this mission, COSSEC's specialized professionals provide quarterly assessments and full examinations every 18 months, provide legal guidance to executives and directors of savings and credit unions, and investigate complaints and inquiries regarding any savings and credit union. As of September 30, 2009, Puerto Rico savings and credit unions had assets including:

- \$4,322 million in loans
- \$6,573 million in deposits
- 836,354 members and 300,855 depositors for more than one million customers.
- 2,997 employees
- 190 ATM machines throughout Puerto Rico
- 142 branches or service offices throughout the island.

For additional information on credit unions contact COSSEC at (787) 622-0957, through the internet at [www.cossec.com](http://www.cossec.com), or through email at [información@cossec.com](mailto:información@cossec.com).

**D. International Bank Entities (IBE)**

As of April 1, 2010, there were forty IBEs operating in Puerto Rico.

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<sup>225</sup> <http://www.cossec.com/>. 7 L.P.R.A. §§ 1334-1335h.



## E. Securities Firms

As of third quarter 2009, the following securities brokers were operating in Puerto Rico:  
 Securities Brokers: Total Customer Assets Under Control

<b>Institution</b>	<b>Q3-2009</b>
Samuel Ramírez	\$90,000,000
Popular Securities	\$4,216,311,000
Oriental Financial Svcs. Corp.	\$1,172,369,845
RD Capital Group	\$117,894,000
BBVA Securities Inc.	\$504,991,000
UBS Financial Services Inc. of PR	\$13,654,883,000
Santander Securities	\$5,467,562,000
Wachovia Securities (Prudential)	\$279,314,807
Merrill Lynch, Pierce, Fenner	\$676,107,742
Charles Schwab	\$612,029,815
Jefferson Pilot/Lincoln Fin.	\$5,654,000
World Group Securities, Inc.	\$13,810,000
Raymond James Fin. Services	\$38,823,485
Tower Square Securities	\$58,000
Axa Advisors	\$1,700,000
Financial Network	\$1,519,703
GWFS Equities Inc.	\$131,839,542
ING. Financial Advisor Inc.	\$1,009,000
ConsultivaSecurities Inc.	\$231,581,068
<b>Total</b>	<b>\$27,217,458,007</b>
<b>Fixed Income</b>	<b>\$19,394,934,359</b>
<b>Equities</b>	<b>\$7,822,523,648</b>

## 3. Insurance

### A. Introduction

Puerto Rico's insurance industry is one of the island's most important economically. Total direct premium in 2008 was \$9,323 million. Disability and health, with \$6,590 million in direct premium, was the largest sector; property and casualty generated premiums of \$2,017 million; and life and annuity saw premiums of \$716 million. Of the property and casualty sector, 91% is controlled by domestic insurers and 9% by foreign insurers. In the life and health sector, 60% is controlled by foreign insurers and 40% by domestic insurers. The disability and health sector is controlled entirely by domestic corporations.

The market is serviced by 7,031 individuals and 361 corporate intermediaries, licensed either as principal representatives or producers.



## **B. Office of the Insurance Commissioner of Puerto Rico (OCS) <sup>226</sup>**

(its Spanish acronym)

Title 26 of the Puerto Rico Code governs the insurance sector, and it creates the OCS as the sector's regulatory body. As such, the Commissioner can issue and enforce regulations, ruling letters to clarify issues not addressed by Code or regulations, and circular letters to provide information or explain expectations. The OCS's general objectives are to protect consumers/insureds, authorize insurers and intermediaries under the provisions of the Code, promote solvency and adequate economic performance of regulated entities, review the business behavior of its licensees, and define acceptable practices among industry participants. The OCS is empowered to issue cease and desist orders, rehabilitation or insolvency orders, subpoenas, and orders for the examination of licensed entities.

The OCS is a member of the National Association of Insurance Commissioners (NAIC) and the *Asociación de Supervisores de Seguro de América Latina* (ASSAL). The OCS's website contains the Insurance Code and all regulations, ruling letters, and circular letters as well as all relevant application forms and a calendar for compliance forms and due dates.<sup>227</sup>

## **C. Important Insurance Code Provisions**

Under the Insurance Code, the following entities must be licensed by the OCS:

- Risk-bearing entities: authorized insurers and reinsurers, health services organizations, eligible surplus lines insurers, service contract providers, auto clubs, and settlement agreement providers (currently, third-party administrators need not be licensed to operate in Puerto Rico),<sup>228</sup>
- Authorized service companies: rating organizations and advisory organizations;<sup>229</sup>
- Licensed intermediaries: producers, authorized representatives, general agent/manager, surplus lines brokers, authorized persons, life settlement agreement brokers, adjusters and attorneys in fact.<sup>230</sup>

The Code provides for the organization of domestic insurers, the authorization of foreign insurers to do business in Puerto Rico, and international insurers to do business outside of Puerto Rico. Those companies that offer either life insurance, P&C insurance, or both, are required by law to affiliate with a guaranty association.<sup>231</sup>

Authorized domestic insurers are required to submit management agreements to the Office for approval.

Authorized insurers are subject to a premium tax of 4%, 1% for Annuities considerations. Domestic insurers that maintain their main office in Puerto Rico may request an exemption from the premium tax.

## **D. Mandatory Insurance Requirements**

The Insurance Code establishes a joint underwriting association for vehicular liability insurance, and vehicle owners are required to obtain such insurance upon the issuance or renewal of vehicle licenses.

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<sup>226</sup> <http://www.ocs.gobierno.pr/ocspr/>.

<sup>227</sup> <http://www.ocs.gobierno.pr/>.

<sup>228</sup> Chapters 3, 19, 10, 21 and 43 of the Insurance Code.

<sup>229</sup> Chapter 12 of the Insurance Code.

<sup>230</sup> 26 L.P.R.A. §§ 949-953i

<sup>231</sup> 26 L.P.R.A. §§ 3801-3918



All medical professionals and institutions are required to obtain mandatory medical malpractice insurance. The code also establishes an excess medical malpractice insurer (SIMED), and all insurers authorized to provide casualty insurance are required to be members.

All employers are required to obtain mandatory workers compensation insurance provided and supervised by the State Insurance Fund. Employers are also required to obtain unemployment insurance provided by the Puerto Rico Department of Labor. Non-occupational unemployment insurance is also required; this coverage is provided by private insurers.

### **E. Center for International Insurance <sup>232</sup>**

Through the Center for International Insurance, the OCI permits international insurers to establish operations in Puerto Rico, including providing direct standard insurance for risks located outside of Puerto Rico and providing reinsurance and surplus lines insurance for risks located in and outside of Puerto Rico. The following classes of international insurers are contemplated:

<b>CLASS</b>	<b>INSURANCE PERMITTED TO TRANSMIT</b>	<b>INSURANCE NOT PERMITTED TO TRANSMIT</b>	<b>INSURABLE RISKS</b>	<b>CAPITAL REQUIREMENTS &amp; DIVIDEND RESTRICTIONS</b>	<b>FEES &amp; CHARGES</b>
<b>CLASS 1 AUTHORITY "PURE CAPTIVES"</b>	May not insure risks other than those of its parent, affiliated companies and/or controlled unaffiliated businesses	Disability Life High-limit Casualty Property Catastrophe Reinsurance	The sole owner of the International Insurer, any affiliated owner or other affiliate of the International Insurer	\$500,000 in order to issue authorization \$500,000 minimum capital requirement	\$350 general application fee \$750 application fee for Class 1

<sup>232</sup> [http://www.ocs.gobierno.pr/ocspr/index.php?option=com\\_content&view=article&id=21&Itemid=5](http://www.ocs.gobierno.pr/ocspr/index.php?option=com_content&view=article&id=21&Itemid=5).

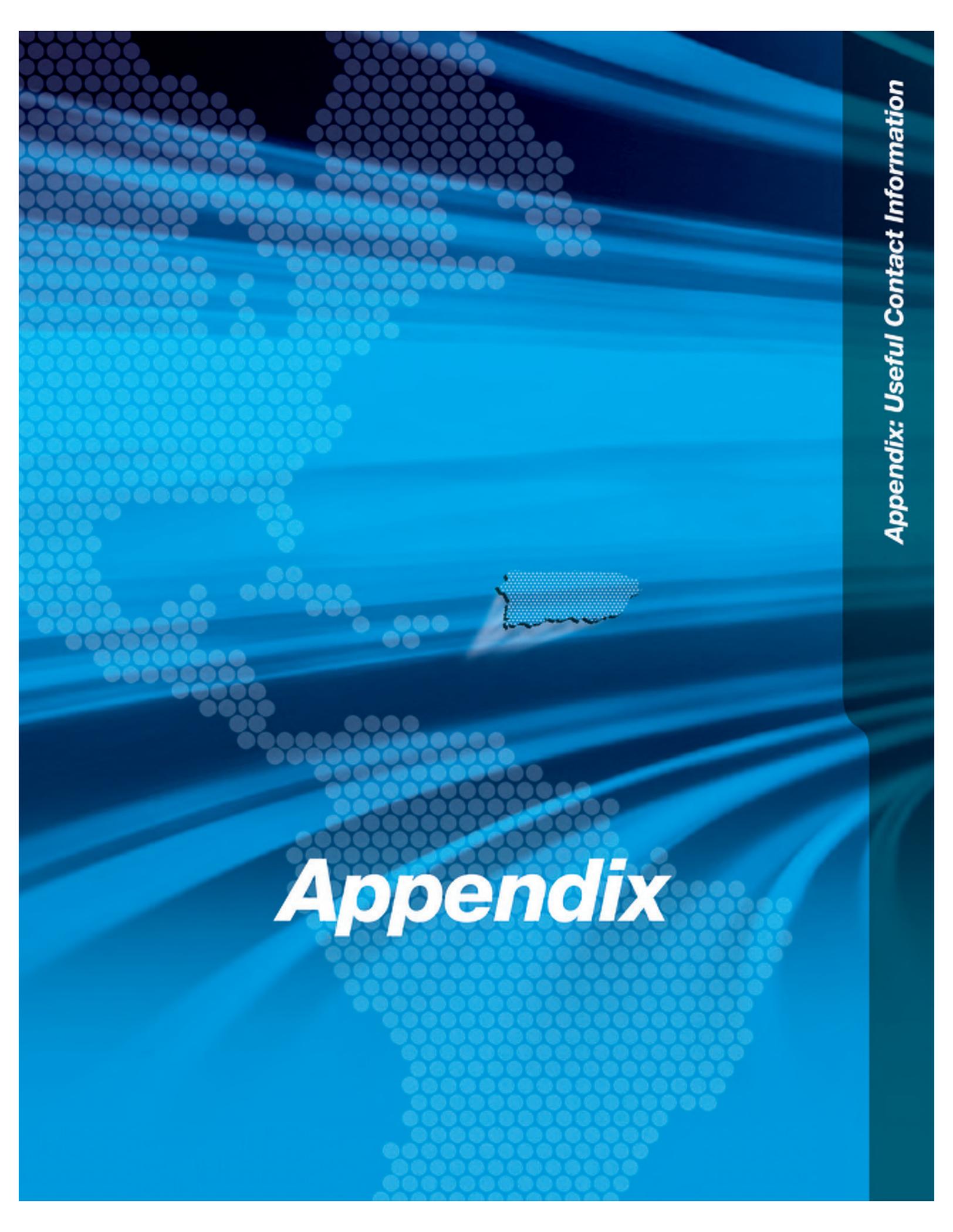


CLASS	INSURANCE PERMITTED TO TRANSACT	INSURANCE NOT PERMITTED TO TRANSACT	INSURABLE RISKS	CAPITAL REQUIREMENTS & DIVIDEND RESTRICTIONS	FEES & CHARGES
<b>CLASS 2 AUTHORITY “ASSOCIATION CAPTIVES”</b>	May insure risks of its parent and/or affiliated companies or its members, as well as those arising from their business transactions	Disability Life High-limit Casualty Property Catastrophe Reinsurance	Risks of the owners, whether or not affiliates of the International Insurer, or of any of their respective affiliates; risks that arise from the business transactions of said owners or affiliates, as may be determined by the Commissioner; or any other risk that does not exceed the total of 20% of the net premiums written by the International Insurer	\$750,000 in order to issue authorization \$500,000 minimum capital requirement	\$350 general application fee \$1000 application fee for Class 2
<b>CLASS 3 AUTHORITY “PROPERTY- CASUALTY”</b>	May transact business for traditional insurance or reinsurance of foreign risks in property & casualty, except life and disability; also, high-limit casualty and property catastrophe reinsurance	Disability Life High-limit Casualty Property Catastrophe Reinsurance	Insurance premiums for foreign risks. Reinsurance premiums for foreign risks	\$1,500,000 in order to issue authorization \$500,000 minimum capital requirement	\$350 general application fee \$2500 application fee for Class 3



CLASS	INSURANCE PERMITTED TO TRANSACT	INSURANCE NOT PERMITTED TO TRANSACT	INSURABLE RISKS	CAPITAL REQUIREMENTS & DIVIDEND RESTRICTIONS	FEES & CHARGES
<b>CLASS 4 AUTHORITY “UNRESTRICTED PROPERTY &amp; CASUALTY”</b>	May transact business for traditional insurance and reinsurance foreign risks in property & casualty, including high limit property and casualty reinsurance. Cannot transact life and disability reinsurance	High-limit Casualty and Property Catastrophe Reinsurance Disability Reinsurance Life Reinsurance	Insurance premiums for foreign risks. Reinsurance premiums for PR and foreign risks	\$100,000,000 in order to issue authorization \$2,000,000 minimum capital requirement	\$350 general application fee \$25,000 application fee for Class 4
<b>CLASS 5 AUTHORITY “UNRESTRICTED LIFE &amp; DISABILITY”</b>	Can transact business for traditional insurance and reinsurance foreign risks in life and disability	Disability Life Disability Re-insurance Life Reinsurance	Insurance premiums for foreign risks. Reinsurance premiums for PR and foreign risks.	\$750,000 in order to issue authorization \$750,000 minimum capital requirement	\$350 general application fee \$750 application fee for Class 5

As of December 31, 2009, 11 international insurers were organized and authorized by the Office of the Commissioner of Insurance, including 5 Class 1, 5 Class 3 and 1 Class 5.

The background features a stylized world map composed of a grid of dots in various shades of blue. A small satellite dish icon is positioned in the center of the map. The overall aesthetic is modern and technological.

# ***Appendix***



## Appendix: Useful Contact Information

### Government Institutions

#### Office of the Governor of Puerto Rico

P.O. Box 9020082  
San Juan, PR 00902-0082  
(787) 721-7000  
[www.fortaleza.gobierno.pr](http://www.fortaleza.gobierno.pr)

#### Energy Affairs Administration

P.O. Box 41314  
San Juan, PR 00940  
(787) 999-2200  
[www.aae.gobierno.pr](http://www.aae.gobierno.pr)

#### Puerto Rico Federal Affairs Administration (PRFAA)

1100 Seventeenth Street  
NW Suite 800,  
Washington, DC 20036  
(202) 778-0710  
[www.prfaa.com](http://www.prfaa.com)

#### Commissioner for Credit Union Development

Ave. Muñoz Rivera 998  
Edificio Banco Santander  
Río Piedras, PR 00926  
(787) 763-2097

#### Administration of Industry and Sport of Racing

Ave. 65 de Infantería Esq.  
Calle Rafael Arcelay,  
Berwind Shopping Center  
Río Piedras, PR  
(787) 768-2005  
[www.aidh.gobierno.pr](http://www.aidh.gobierno.pr)

#### Rules and Permits Administration

Centro Gubernamental  
Roberto Sánchez Vilella  
Edificio Norte, Piso 9  
San Juan, PR  
(787) 721-8282  
[www.arpe.org](http://www.arpe.org)

#### Land Administration

171 Ave. Chardón,  
Hato Rey, PR  
(787) 753-9300  
[www.terrenos.gobierno.pr](http://www.terrenos.gobierno.pr)

#### Public Housing Administration

Ave. Barbosa 606  
Edif. Juan C. Cordero Piso 9  
Río Piedras, PR  
(787) 759-9407  
[www.gobierno.pr/vivienda](http://www.gobierno.pr/vivienda)

#### Administración para el Asunto de Menores (ASUME)

C/ Mayagüez #5 Esq. Cidra  
Edificio Metro Center  
Hato Rey, PR 00917  
(787) 767-1500  
[www.asume.gobierno.pr](http://www.asume.gobierno.pr)

#### Puerto Rico Aqueduct and Sewer Authority (PRASA)

Avenida Barbosa #604  
Hato Rey, PR 00917  
(787) 620-2277  
[www.acueductospr.com](http://www.acueductospr.com)

#### Highway and Transportation Authority

Centro Gubernamental Minillas  
Edificio Sur Piso 10  
Santurce, PR  
(787) 721-8787  
[www.act.dtop.gov.pr](http://www.act.dtop.gov.pr)

#### Solid Waste Authority

Edificio Agencias Ambientales  
Sector el 5, Carr. 838  
KM 6.3 Piso  
Río Piedras, PR 00926  
(787) 765-7575  
[www.ads.gobierno.pr](http://www.ads.gobierno.pr)

#### Puerto Rico Public Buildings Authority (PBA)

Centro Gubernamental Minillas  
Edificio Norte Piso 6  
Santurce, PR  
(787) 722-0101  
[www.aep.gobierno.pr](http://www.aep.gobierno.pr)

#### Puerto Rico Electric Power Authority (PREPA)

Ave. Ponce de León #1110  
Pda. 16 ½  
Santurce, PR  
(787) 289-3434  
[www.aeepr.com](http://www.aeepr.com)

#### Maritime Transport Authority

100 Calle Playa  
Puerto Real,  
San Juan, PR 00740  
(787) 801-0250



**Roosevelt Roads Naval Station Lands and Facilities Redevelopment Authority (Portal del Futuro)**

Edif. New San Juan  
159 Ave. Chardón,  
San Juan, PR 00919  
(787) 294-0101

**Port of the Americas Authority**

Edif. New San Juan  
159 Ave. Chardón,  
San Juan, PR 00919  
(787) 294-0101  
[www.portoftheamericas.com](http://www.portoftheamericas.com)

**Puerto Rico Ports Authority**

Calle Lindbergh #64  
Isla Grande  
San Juan, PR  
(787) 723-2260  
[www.appportal.prapa.gobierno.pr](http://www.appportal.prapa.gobierno.pr)

**Lands Authority**

1311 Ave. Fernández Juncos  
Pda. 19 ½  
Santurce, PR  
(787) 723-9090  
[www.agricultura.gobierno.pr](http://www.agricultura.gobierno.pr)

**Puerto Rico Convention Center District Authority**

Antigua Base Naval  
Edificio W9 Isla Grande,  
San Juan, PR 00907  
(787) 722-3309  
[www.prconventiondistrict.com](http://www.prconventiondistrict.com)

**Metropolitan Bus Authority (MBA)**

Urb. San Francisco 37  
Ave. De Diego  
Río Piedras, PR  
(787) 294-0500  
[www.dtop.gobierno.pr](http://www.dtop.gobierno.pr)

**Puerto Rico Industrial, Tourist, Educational, Medical and Environmental Control Facilities Financing Authority (AFICA)**

Banco Gubernamental de Fomento  
Centro Gubernamental Minillas  
Edificio Centro 4to piso  
Ave. De Diego Pda. 22  
Santurce, PR  
(787) 722-2525  
[www.gdb-pur.com](http://www.gdb-pur.com)

**Puerto Rico Infrastructure Financing Authority (PRIFA)**

Edificio Capital Center, 235  
Ave. Arterial Hostos,  
San Juan, PR 00918-1433  
(787) 763-5757  
[www.afi.gobierno.pr](http://www.afi.gobierno.pr)

**Housing Finance Authority**

606 Ave. Barbosa, Piso 3  
Edificio Juan C. Cordero  
Río Piedras, PR  
(787) 765-7577

**Puerto Rico Public-Private Partnerships Authority (PPPA)**

Centro Gubernamental  
Roberto Sánchez Vilella  
Ave. De Diego, Parada 22  
Santurce, P.R. 00907  
(787) 722-2525  
[www.p3.gov.pr](http://www.p3.gov.pr)

**Economic Development Bank for Puerto Rico (EDB)**

Calle Aldebarán #638,  
Urb. Altamira  
San Juan, PR  
(787) 641-4300  
[www.bdepr.org](http://www.bdepr.org)

**Government Development Bank for Puerto Rico (GDB)**

Centro Gubernamental  
Roberto Sánchez Vilella  
Ave. De Diego, Parada 22  
Santurce, P.R. 00907  
(787) 722-2525  
[www.gdb-pur.com](http://www.gdb-pur.com)

**Centro de Recaudación de Ingresos Municipales (CRIM)**

Carretera #1 Estatal,  
Km. 17.3  
San Juan, PR 00919-5387  
(787) 625-2746  
[www.crimpr.net](http://www.crimpr.net)

**Puerto Rico Trade Company**

Edificio New San Juan  
159 Ave. Chardón  
Hato Rey, PR 00918  
(787) 294-010  
[www.comercioyexportación.com](http://www.comercioyexportación.com)

**Puerto Rico Industrial Development Company (PRIDCO)**

Ave. Roosevelt 355  
Hato Rey, PR  
(787) 758-4747  
[www.pridco.com](http://www.pridco.com)



**National Parks Company  
of Puerto Rico**

Ave. Fernandez Juncos 1611  
Pda. 23 1/2  
Santurce, PR  
(787) 622-5200  
[www.cpnpr.gobierno.pr](http://www.cpnpr.gobierno.pr)

**Puerto Rico Tourism  
Company (PRTC)**

Paseo la Princesa  
Edificio la Princesa  
San Juan, PR 00902  
(787) 721-2400  
[www.gotopuertorico.com](http://www.gotopuertorico.com)

**Human Resources  
and Occupational  
Development Council**

Ave. FD Roosevelt 355  
Edificio Fomento Industrial Piso 2  
San Juan, PR 00918  
(787) 754-5504  
[www.cdorh.org](http://www.cdorh.org)

**Puerto Rico Film Industry,  
Arts & Sciences Development  
Corporation**

Ave. FD Roosevelt 355  
Edificio Fomento Industrial Piso 1  
San Juan, PR 00918  
(787) 758-4747  
[www.puertoricofilm.com](http://www.puertoricofilm.com)

**Agricultural Insurance  
Corporation**

Ave. Hipódromo  
Edificio Plaza 20 603  
Santurce, PR 00908  
(787) 722-2748  
[www.csa.gobierno.pr](http://www.csa.gobierno.pr)

**Commonwealth Insurance  
Fund Corporation**

Carr. 21  
Esq. Ave. De Diego  
Río Piedras, PR  
(787) 793-5959  
[www.cfse.gov.pr/](http://www.cfse.gov.pr/)

**Rural Development Corporation**

Edificio Tres Ríos  
27 Ave. Martínez Nadal,  
Esq. Gonzalez Giusti San Patricio,  
Guaynabo, PR  
(787) 474-7364  
[www.dr.gobierno.pr](http://www.dr.gobierno.pr)

**Puerto Rico Credit Unions  
Supervision and Insurance  
Corporation**

431 Ave. Ponce de León  
Edificio Nacional Plaza, Piso 14  
Hato Rey, PR 00919  
(787) 622-0957  
[www.cossec.com](http://www.cossec.com)

**Puerto Rico Fire Department**

Edificio Casa Lee 2432  
Calle Loíza Esq. Doncella  
San Juan, PR  
(787) 725-3444

**Department of Agriculture  
of Puerto Rico**

Ave. Fernández Juncos 1311  
Pda. 18 1/2  
Santurce, PR  
(787) 721-2120  
[www.agricultura.gobierno.pr](http://www.agricultura.gobierno.pr)

**Consumer Affairs Department  
of Puerto Rico**

Centro Gubernamental Minillas  
Edificio Norte, Piso 5  
Ave. De Diego  
San Juan, PR  
(787) 722-7555  
[www.daco.gobierno.pr](http://www.daco.gobierno.pr)

**Department of Economic  
Development and Commerce  
of Puerto Rico**

Edif. Fomento Industrial  
Ave. FD Roosevelt 255, Piso 4  
Hato Rey, PR 00918  
(787) 765-2900  
[www.ddec.gobierno.pr](http://www.ddec.gobierno.pr)

**Department of Education  
of Puerto Rico**

Calle Federico Acosta 150  
San Juan, PR  
(787) 759-2000  
[www.de.gobierno.pr](http://www.de.gobierno.pr)

**Puerto Rico State Department**

Calle San José  
Viejo San Juan, PR  
(787) 722-2121  
[www.estado.gobierno.pr](http://www.estado.gobierno.pr)

**Treasury Department  
of Puerto Rico**

Edificio Indendente Ramírez  
Piso 8  
Paseo Covandonga  
San Juan, PR 00906  
(787) 721-2020  
[www.hacienda.gobierno.pr](http://www.hacienda.gobierno.pr)



**Department of the Family  
of Puerto Rico**

Ave. Barbosa 206  
Hato Rey, PR  
(787)294-4900  
[www.familia.gobierno.pr](http://www.familia.gobierno.pr)

**Housing Department  
of Puerto Rico**

606 Ave. Barbosa, Piso 10  
Edificio Juan C. Cordero  
Río Piedras, PR 00928  
(787) 274-2525  
[www.vivienda.gobierno.pr](http://www.vivienda.gobierno.pr)

**Department of Sports and  
Recreation of Puerto Rico**

Marginal Los Angeles  
Parque de Santurce,  
San Juan PR 00902-3207  
(787) 721-2800  
[www.drd.gobierno.pr](http://www.drd.gobierno.pr)

**Department of Natural and  
Environmental Resources  
of Puerto Rico**

Carr. 8838, km.6.3  
Sector El Cinco, Cupey  
Río Piedras, PR  
(787) 999-2200  
[www.drna.gobierno.pr](http://www.drna.gobierno.pr)

**Health Department  
of Puerto Rico**

Edificio A, Piso 1  
Centro Médico  
Río Piedras, PR  
(787) 765-2929  
[www.salud.gov.pr](http://www.salud.gov.pr)

**Department of Transportation  
and Public Works  
of Puerto Rico**

Centro Gubernamental Minillas  
Edificio Sur Pda. 22 Piso 17  
Ave. De Diego,  
Santurce, PR  
(787) 729-1590  
[www.dtop.gov.pr](http://www.dtop.gov.pr)

**Department of Labor  
and Human Resources**

Edificio Prudencio Rivera Martínez,  
505 Ave. Muñoz Rivera  
Hato Rey, PR  
(787) 754-2119  
[www.dtrh.gobierno.pr](http://www.dtrh.gobierno.pr)

**Puerto Rico Science,  
Technology and Research Trust**

Ave. FD Roosevelt 355  
Piso 1  
Hato Rey, PR 00918  
(787) 758-4747  
[www.prsciencetrust.org](http://www.prsciencetrust.org)

**Integral Fund for Agricultural  
Development**

1309 Ave. Fernández Juncos  
2do Piso,  
Santurce, PR 00918  
(787) 723-9090  
[www.agricultura.gobierno.pr](http://www.agricultura.gobierno.pr)

**Statistics Institute  
of Puerto Rico**

Calle Quisqueya #57  
Segundo Piso  
Hato Rey, PR 00917  
(787) 993-3336  
[www.estadisticas.gobierno.pr](http://www.estadisticas.gobierno.pr)

**Environmental Quality Board**

Edificio de Agencias Ambientales  
Cruz A. Matos  
Urb. San José Industrial Park  
1375 Avenida Ponce de León  
San Juan, PR 00926-2604  
(787) 767-8181  
[www.jca.gobierno.pr](http://www.jca.gobierno.pr)

**Puerto Rico Planning Board**

Centro Gubernamental Minillas  
Edificio Norte, Piso 19  
San Juan, PR  
(787) 723-6200  
[www.jp.gobierno.pr](http://www.jp.gobierno.pr)

**Telecommunications  
Regulation Board**

Ave. Arterial Hostos 235  
Edificio Capital Center,  
Torre Norte Piso 10, Suite 1001  
Hato Rey, PR 00918-1453  
(787) 756-0804  
[www.jrtpr.gobierno.pr](http://www.jrtpr.gobierno.pr)

**Office of Industrial  
Tax Exemption**

Ave. FD Roosevelt 355  
Edificio de Fomento Industrial,  
Ofic. 105  
San Juan, PR 00919  
(787) 764-6363

**Office of Human Resources  
of the Commonwealth  
of Puerto Rico**

Edificio Zequeira, Calle Vela #6  
Ave. Ponce de León  
Hato Rey, PR 00918  
(787) 274-4300  
[www.orhela.gobierno.pr](http://www.orhela.gobierno.pr)



**Office of the Commissioner  
of Financial Institutions**

1492 Ave. Ponce de León, Suite 600  
Santurce, PR 00907-4204  
(787) 723-3131  
[www.ocif.gobierno.pr](http://www.ocif.gobierno.pr)

**Office of the Commissioner  
of Insurance**

GAM Tower  
Urb. Caparra Hills  
Ind. Park 2 Calle Tabonuco Suite 400  
Guaynabo, PR 00968-3020  
(787) 304-8686  
[www.ocs.gobierno.pr](http://www.ocs.gobierno.pr)

**Office of the Resident  
Commissioner in Washington**

Calle Fortaleza 250  
Viejo San Juan, PR 00901  
(787) 723-6333  
[www.pierluisi.house.gov](http://www.pierluisi.house.gov)

**Office of the Comptroller  
of Puerto Rico**

Ave. Ponce de León 105 Pda. 27  
San Juan, PR  
(787)754-3030  
[www.ocpr.gov.pr](http://www.ocpr.gov.pr)

**Office of Credit Union  
Inspector General**

Ave. Ponce de León 954,  
Pda. 15 Edificio Miramar Plaza  
Piso 3 Oficina 301  
(787) 721-2225  
[www.oic.gobierno.pr](http://www.oic.gobierno.pr)

**Puerto Rico Police Department**

Ave. FD Roosevelt 601  
Cuartel General  
Hato Rey, PR  
(787) 793-1234  
[www.policia.gobierno.pr](http://www.policia.gobierno.pr)

**Property and Probate Records**

Ave. Fernandez Juncos 600  
Vistas de San Juan 00907  
(787) 723-7560

**Academic Institutions**

**University of Puerto Rico**

Carretera Núm. 1, Km. 12.9  
Terrenos Estación  
Experimental Agrícola, Río Piedras, PR  
(787) 250-0000  
[www.upr.edu](http://www.upr.edu)

**Inter American University**

Apartado 191293  
San Juan, PR 00919-1293  
(787) 250-1912  
[www.inter.edu](http://www.inter.edu)

**Sacred Heart University**

P.O. Box 12383  
San Juan, PR 00914-0383  
(787) 728-1515  
[www.sagrado.edu](http://www.sagrado.edu)

**Ana G. Méndez  
University System**

**Turabo University**  
**Metropolitan University**  
**East University**

P.O. Box 21345  
San Juan, PR 00928-1345  
(787) 766-1706  
[www.suagm.edu](http://www.suagm.edu)

**Turabo University**

P.O. Box 3030  
Gurabo, P.R. 00778-3030  
Puerto Rico  
(787) 743-7979  
[www.suagm.edu](http://www.suagm.edu)

**Metropolitan University**

P.O. Box 21150  
San Juan, P.R.  
00928-1150  
(787) 766-1717 • Fax (787) 759-7663  
[www.suagm.edu](http://www.suagm.edu)

**East University**

P.O. Box 2010  
Carolina, P.R.  
00984-2010  
(787) 257-7373 • Fax (787) 752-0070  
[www.suagm.edu](http://www.suagm.edu)

**Ponce School of Medicine**

P.O. Box 7004,  
Ponce, PR 00732-7004  
(787) 840-2575  
[www.psm.edu](http://www.psm.edu)

**Polytechnic University  
of Puerto Rico**

377 Ponce de León  
Hato Rey, PR 00198  
(787) 622-8000  
[www.pupr.edu](http://www.pupr.edu)

**Pontifical Catholic University**

2250 Las Américas Ave.  
Suite 564  
Ponce, P.R. 00717  
(787) 841-2000 • Fax (787) 651-2034  
[www.pucpr.edu](http://www.pucpr.edu)



### **Caribbean University**

Forest Hills Urb.  
Rd. 167, Km 21.2  
Bayamón, P.R. 00959  
(787) 999-8244 • Fax (787) 785-0101  
www.caribbean.edu

### **Carlos Albizu University**

151 Tanca St.  
Old San Juan 00902  
(787) 725-6500 • Fax (787) 721-7187  
www.albizu.edu

### **San Juan Bautista School of Medicine**

P. O. Box 4968  
Caguas, PR 00726-4968  
(787) 745-3645  
www.sanjuanbautista.edu

### **American University of Puerto Rico**

P.O. Box 2037  
Bayamón, PR 00960  
(787) 621-2835  
www.aupr.edu

### **Non-profit Organizations**

#### **Puerto Rico Convention Bureau San Juan, PR**

Edificio Ochoa  
500 Tanca Suite 402  
San Juan, PR 00901-1492  
(787) 725-2110 • Fax. (787) 725-2133  
info@meetpuertorico.com

#### **Association of Insurance Companies (ACODESE)**

Edif Banco De Desarrollo Economico  
2ndo Piso Oficina 203  
Guaynabo PR 00968  
(787) 793-4430

### **Alliance for the Development of Puerto Rico**

1510 F.D. Roosevelt Ave.  
Triple S Plaza  
Suite 6A  
Guaynabo, PR 00968  
(787) 273-7979

### **Banks Association**

Edif Popular Center  
208 Ave Ponce De León  
Suite 1014  
San Juan PR 00918-1002  
(787) 753-8630

### **Homebuilders Association**

250 Ponce De León Ave  
202 Citibank Tower  
San Juan PR 00918  
(787) 781-0025

### **General Contractors Association**

Calle Perseo 501, Oficina 211  
Cond. Centro De Altamira  
San Juan PR 00920  
(787) 781-2200

### **Puerto Rico Manufacturer's Association (PRMA)**

Centro Internacional De Mercadeo  
St 165 Torre 2 Suite 702  
Guaynabo PR 00968  
(787) 653-6300

### **Association of Securities Industry**

American International Plaza –  
9th. Floor  
250 Muñoz Rivera Ave.  
San Juan, PR 00918

### **Puerto Rico Shipping Association**

Zona Portuaria  
Muelle B  
Carr. 28 #1034  
San Juan, PR 00902  
(787) 792-9000

### **Puerto Rico Products Association**

Urb El Vedado  
406 Calle Capitán Espada  
Esq Padre Las Casas  
Hato Rey PR 00918

### **Broadcasters Association of Puerto Rico**

1305 Calle Delta  
Caparra Terrace  
San Juan, PR 00920

### **Chamber of Commerce of Puerto Rico**

100 Tetuán Street  
Old San Juan  
San Juan PR 00901  
(787) 721-6060

### **United Retailers Center**

4to Piso Ave. Munoz Rivera 501  
Hato Rey PR 00918  
(787) 641-8413

### **Association of Architects and Landscape Architects of Puerto Rico**

225 Calle Del Parque  
San Juan PR 00912  
(787) 724-1213



**Certified Public Accounts  
Society of Puerto Rico**

Capital Center Edif I  
239 Arterial Hostos  
Suite 1401  
San Juan PR 00918 1477

**College of Engineers  
and Surveyors**

Urb. Roosevelt  
500 Calle Antolin Nín Martínez  
San Juan, PR 00918  
(787) 758-2250

**Concilio de Exportaciones  
de Puerto Rico**

Pan American Grain  
Calle Claudie #9  
Esq Beatriz  
Parque Industrial Amelia  
Guaynabo PR 00968  
(787) 273-6100

**Internet Society of Puerto Rico**

The Atrium Office Center  
530 Avenida De La Constitución  
San Juan PR 00901

**Chamber of Marketing, Industry  
and Food Distribution (MIDA)**

Centro Internacional De Mercadeo  
90 Carr. 166  
Suite 501 Torre 2  
Guyanabo PR 00968

**Pharmaceutical Industry  
Association**

City View Plaza  
Suite 407  
Guaynabo PR 00968

**PR Hotel & Tourism (PRHTA)**

165 Ponce De León Ave  
Suite 301  
San Juan PR 00917-1233  
(787) 758-8001

**Society of Human  
Resources (SHRM)**

Capital Center Plaza  
Suite 504 - Torre Sur  
Arterial Hostos 239  
Hato Rey PR 00918

**Southwestern Industrial  
Association (SWIA)**

La Quinta Industrial Park #177  
Bo. Balboa  
Mayagüez, PR 00680

**Municipalities**

**Adjuntas**

Apartado 1009  
Adjuntas, PR 00601-1009  
Tel: (787) 829-3310  
Fax: (787) 829-0686

**Aguada**

Apartado 517  
Aguada, PR 00602-0517  
Tel: (787) 868-0904  
Fax: (787) 868-4600

**Aguadilla**

Apartado 1008  
Aguadilla, P.R. 00605  
Tel: (787) 882-5435  
Fax: (787) 882-5435

**Aguas Buenas**

P. O. Box 128  
Aguas Buenas, PR 00703-0128  
Tel: (787) 732-8621  
Fax: (787) 732-2344

**Aibonito**

Apartado 2004  
Aibonito, PR 00705-2005  
Tel: (787) 735-9209  
Fax: (787) 735-3237

**Añasco**

P. O. Box 1385  
Añasco, PR 00610  
Tel: (787) 826-3100  
Fax: (787) 826-7000

**Arroyo**

Box 477  
Arroyo, P.R. 00714  
Tel: (787) 839-3500  
Fax: (787) 271-1171

**Arecibo**

Apartado 1086  
Arecibo, PR 00613-1086  
Tel: (787) 878-5228  
Fax: (787) 880-6033

**Barceloneta**

P. O. Box 2049  
Barceloneta, PR 00617-2049  
Tel: (787) 846-3400  
Fax: (787) 846-0089

**Barranquitas**

Apartado 250  
Barranquitas, P.R. 00794  
Tel: (787) 857-2065  
Fax: (787) 857-4946

**Bayamón**

Apartado 1588  
Bayamón, P.R. 00960  
Tel: (787) 269-7733  
Fax: (787) 798-6485

**Cabo Rojo**

Apartado 1308  
Cabo Rojo, P.R. 00623  
Tel: (787) 851-0300  
Fax: (787) 851-3388

**Caguas**

P. O. Box 907  
Caguas, PR 00726-0907  
Tel: (787) 286-1034 direct line  
Tel: (787) 743-3400  
Tel: (787) 744-8833  
Fax: (787) 746-6562

**Camuy**

Apartado 539  
Camuy, P.R. 00627  
Tel: (787) 898-2160  
Fax: (787) 262-7571

**Canóvanas**

Apartado 1612  
Canóvanas, P.R. 00729  
Tel: (787) 957-1159  
Fax: (787) 256-7269

**Carolina**

P. O. Box 8  
Carolina, PR 00984-0008  
Tel: (787) 757-2626  
Fax: (787) 750-5330

**Cataño**

P. O. Box 428  
Cataño, PR 00963-0428  
Tel: (787) 788-0404  
Fax: (787) 993-6993

**Cayey**

P. O. Box 371330  
Cayey, PR 00737-1330  
Tel: (787) 738-3211  
Tel: (787) 738-5156  
Tel: (787) 738-3131 For Appointments  
Tel: (787) 825-1150  
Fax: (787) 738-7865  
Fax: (787) 263-5829

**Ceiba**

Apartado 224  
Ceiba, PR 00735  
Tel: (787) 885-2180  
Fax: (787) 885-5137

**Ciales**

Apartado 1408  
Ciales, P.R. 00638  
Tel: (787) 871-3500  
Fax: (787) 871-3743

**Cidra**

Apartado 729  
Cidra, P.R. 00739  
Tel: (787) 739-4041  
Fax: (787) 739-5118

**Coamo**

P. O. Box 1875  
Coamo, PR 00769-1875  
Tel: (787) 825-1150  
Fax: (787) 825-6502

**Comerío**

P. O. Box 1108  
Comerío, PR 00782-1108  
Tel: (787) 875-3445  
Fax: (787) 875-5372  
Fax: (787) 875-0660

**Corozal**

Calle Cervantes #9  
Corozal, P.R. 00783  
Tel: (787) 802-0200  
Fax: (787) 859-2268

**Culebra**

Apartado 189  
Culebra, PR 00775-0189  
Tel: (787) 742-3577  
Fax: (787) 742-0111

**Dorado**

P. O. Box 588  
Dorado, PR 00646-0588  
Tel: (787) 796-1230  
Fax: (787) 821-0092

**Fajardo**

P. O. Box 865  
Fajardo, P.R. 00738  
Tel: (787) 863-0429  
Fax: (787) 863-0393

**Florida**

Apartado 1168  
Florida, P.R. 00650  
Tel: (787) 822-2672  
Fax: (787) 822-1524

**Guánica**

P. O. Box 785  
Guánica, PR 00653-0785  
Tel: (787) 821-1777  
Fax: (787) 821-0092

**Guayanilla**

P. O. Box 560550  
Guayanilla, PR 00656-0560  
Tel: (787) 835-2660  
Tel: (787) 835-2360  
Fax: (787) 835-3713

**Guayama**

Apartado 360  
Guayama, PR 00785-0360  
Tel: (787) 864-1830  
Fax: (787) 864-5070

**Guaynabo**

Apartado 7885  
Guaynabo, P.R. 00970  
Tel: (787) 720-4040  
Fax: (787) 790-0707

**Gurabo**

Apartado 320  
Gurabo, PR 00778-0320  
Tel: (787) 737-8411  
Fax: (787) 737-5250

**Hatillo**

P. O. Box 8  
Hatillo, PR 00659-0008  
Tel: (787) 898-3840  
Fax: (787) 898-2295

**Hormigueros**

P. O. Box 97  
Hormigueros, PR 00660-0097  
Tel: (787) 849-2515  
Fax: (787) 849-1290  
Fax: (787) 849-1251

**Humacao**

P. O. Box 178  
Humacao, PR 00792-0178  
Tel: (787) 852-3066  
Tel: (787) 852-2000  
Fax: (787) 850-6767

**Isabela**

P. O. Box 507  
Isabela, PR 00662-0507  
Tel: (787) 872-2100  
Fax: (787) 830-8045

**Jayuya**

P. O. Box 488  
Jayuya, PR 00664-0488  
Tel: (787) 828-0900  
Fax: (787) 828-1033

**Juana Díaz**

P. O. Box 1409  
Juana Díaz, PR 00795  
Tel: (787) 837-2185  
Fax: (787) 837-2420

**Juncos**

P. O. Box 1706  
Juncos, PR 00777-1708  
Tel: (787) 734-0335  
Fax: (787) 734-6866

**Lajas**

Apartado 910  
Lajas, PR 00667-0910  
Tel: (787) 899-1450  
Fax: (787) 899-1790

**Lares**

Apartado 218  
Lares, PR 00669-0218  
Tel: (787) 897-6548  
Fax: (787) 897-7510

**Las Marías**

Apartado 366  
Las Marías, P.R. 00670  
Tel: (787) 827-3845  
Fax: (787) 827-2021

**Las Piedras**

P. O. Box 68  
Las Piedras, P.R. 00771  
Tel: (787) 733-4595  
Fax: (787) 733-0165

**Loíza**

Apartado 508  
Loíza, P.R. 00772  
Tel: (787) 886-2445  
Fax: (787) 876-2980

**Luquillo**

Apartado 1012  
Luquillo, P.R. 00773  
Tel: (787) 889-0404  
Fax: (787) 889-8260

**Manatí**

#10 Quiñonez  
Manatí, P.R. 00674  
Tel: (787) 884-6832  
Fax: (787) 854-2274

**Maricao**

Apartado 837  
Maricao, P.R. 00606  
Tel: (787) 838-2290  
Fax: (787) 838-2520

**Maunabo**

P. O. Box 8  
Maunabo, PR 00707-0008  
Tel: (787) 861-0825  
Fax: (787) 861-1165  
Fax: (787) 861-1124

**Mayagüez**

P. O. Box 447  
Mayagüez, PR 00681-0447  
Tel: (787) 834-8585  
Fax: (787) 265-2270

**Moca**

Apartado 1571  
Moca, P.R. 00676  
Tel: (787) 877-2006  
Fax: (787) 877-3560

**Morovis**

Apartado 655  
Morovis, PR 00687-0655  
Tel: (787) 862-2155  
Fax: (787) 862-2421

**Naguabo**

Po Box 40  
Naguabo, PR 00718  
Tel: (787) 874-3580  
Fax: (787) 874-1144

**Naranjito**

Apartado 53  
Naranjito, PR 00719-0053  
Tel: (787) 869-2040

**Orocovis**

P. O. Box 2106  
Orocovis, P.R. 00720  
Tel: (787) 867-5060  
Fax: (787) 867-0455

**Patillas**

Apartado 698  
Patillas, P.R. 00723  
Tel: (787) 839-1250  
Fax: (787) 271-4618

**Peñuelas**

P. O. Box 10  
Peñuelas, PR 00624  
Tel: (787) 836-1218  
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