

1 April 2019

Global Tax Alert

News from Americas Tax Center

Puerto Rico holds hearings on Incentives Code bill proposed May 2018

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On 26 March 2019, public hearings were held to discuss a modified version of House Bill 1635 (Bill), which would establish the Incentives Code of Puerto Rico. The modified version of the Bill has not yet been made public, but the Puerto Rico's Treasury Department, Department of Economic Development and Commerce, and Fiscal Agency and Financial Advisory Authority (known by its Spanish acronym as "AFAF") have publicly issued position papers supporting the modified version of the Bill.

Background

The Puerto Rico House of Representatives proposed the Bill on 29 May 2018, to consolidate most of the approximately 76 tax incentives laws or programs in Puerto Rico under one piece of legislation. The Incentives Code would allow Puerto Rico to achieve more uniformity, gain a greater understanding of how the tax incentives affect the economy and centralize the granting and administration of benefits.

Modified Bill

According to the position papers issued by the government agencies, most provisions of the initial Bill remain unchanged. The position papers, however, express the agencies' support for the Bill following the addition of certain

provisions that the agencies recommended earlier in the legislative process, along with other favorable modifications. Those modifications include: (1) a special program to repay student loans incurred by doctors in Puerto Rico; (2) a 50% credit or cash grant for certain film industry expenses; (3) the opening of a savings account with a \$1,000 balance for every kindergarten student, which may be used for certain stated purposes after graduating from high school; (4) the extension of preferential rates currently available to individual investors who relocate to Puerto Rico to digital assets based on blockchain; and (5) the option to elect tax credits or cash grants. The Bill also maintains the concept of evaluating the requests for incentives using, among other factors, a return-on-investment criterion.

Implications

In its current iteration, the Incentives Code would affect the structures that are currently in place for granting tax incentives in Puerto Rico. Conceptually, the consolidation of incentives into a single statute will lead to greater uniformity and streamlining of the tax incentives' process in Puerto Rico. If the Bill becomes law, it will have an effective date of 1 July 2019, and will provide that any new applications for its incentives would have to be made under this new Incentives Code.

We will monitor the progress of the Bill and issue updates as more information becomes available.

For additional information with respect to this Alert, please contact the following:

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EYG no. 000871-19Gbl

1508-1600216 NY
ED None

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