



Maximize Your Small Business Growth by Taking Advantage of Available Tax Incentives in Puerto Rico

September 28, 2023

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Small and medium-sized businesses, also known as PyME or PyMEs (for its Spanish translation), represent an important sector of the Puerto Rican economy, as they play a substantial role in generating employment opportunities for the Island and boosting economic growth. According to the [Department of Economic Development and Commerce \(DEDIC\) PyMEs Annual Report](#), in 2019 PyMEs accounted for 91.4% of the total establishments in Puerto Rico, contributing 44.8% of the total jobs in the private sector, and representing 39.2% of the total payroll in Puerto Rico's private sector during such year.

In addition, their business activities promote social interactions among the members of the community where they are located. Keeping this in mind, the Puerto Rican government has implemented incentives to support and promote local business development. In this article, we explore the available incentives for PyMEs in Puerto Rico along with the criteria for eligibility and the associated tax benefits.

Acknowledging the paramount role that PyMEs represent in the Puerto Rican economy, the DEDIC has implemented measures and programs to incentivize this sector. These programs are designed to help PyMEs obtain capital, acquire machinery and equipment, and secure cash flows for their operations. Access to capital is one of the most significant challenges PyMEs face in developing, growing, and continuing their operations. Under the programs we will be discussing, the government supports both newly created and existing PyMEs with economic incentives.

Pursuant to Act 60-2019, known as the Incentives Code, PyMEs are either classified as PyMEs or New PyMEs. A PyME is an exempt business that generates an average volume of business of \$3 million or less during 3 tax years prior to the current tax year and has a maximum of 500 employees. For purposes of the Incentives Code, the term PyMEs does not include Resident Individual Investors, Hard-to-Recruit Professionals, nor the terms Eligible Professional Medical Services and Scientific Research.

On the other hand, the recently enacted Act 52-2023 added the definition of microenterprises to the Incentives Code. The term microenterprise refers to PyMEs that generate an annual gross income of less than \$ 500,000 and have 7 employees or less. Furthermore, a New PyME is a PyME that has not commenced operations as of July 1, 2019 [which is the effective date of Act 60-2019], has no economic activity or volume of business, is a new entity and meets any other criteria the Secretary of the DDEC may consider relevant.

Given that PyMEs represent a valuable sector of our economy, it is crucial to discuss the most attractive incentives offered by the Puerto Rican government.

Incentives under Act 60-2019:

Incentives Requested with Tax Grant

The incentive under this category is for New PyMEs. As stated above, the New PyMEs is a business that has not commenced operations as of July 1, 2019, has no economic activity or volume of business and is a new business. For a business to be classified as a PyME under Act 60, it is required to make a formal request at the time of applying for its incentive decree.

Benefits for the New PyMEs:

Type of Tax	Tax Rate	Term
Income Tax	2%	First 5 years
	4%	Remaining period of the tax grant
Real and Personal Property	100%	First 5 years
	75%	Remaining period of the tax grant
Municipal Taxes	100%	First 5 years
	50%	Remaining period of the tax grant

Young Entrepreneurs (Jóvenes Empresarios)

The incentive for Young Entrepreneurs is for young residents (as defined by the DEDC) of Puerto Rico who are committed to creating and operating a business in Puerto Rico. To be eligible for the tax exemptions, the Young Entrepreneur must sign a Special Agreement with the DEDC Secretary.

Requirements at the business and individual level and its benefits:

Category	Requirements
Young Entrepreneur	<ul style="list-style-type: none">• Be a resident of Puerto Rico.• Have 16 to 35 years old.• Have a high school diploma or equivalent certification from the Puerto Rico Education Department or evidence of current studies in pursuit of a high school degree.• Interested in creating and operating a business in Puerto Rico for an indefinite amount of time.
The Business	<ul style="list-style-type: none">• Commence operations on or after the submission of the Application.• Operated exclusively by Young Entrepreneurs.• Must not have operated previously through affiliates or be the result of a reorganization.• The benefits are limited to only one new business per Young Entrepreneur.• Any other requirement that the DEDC Secretary establishes by regulation.

Category	Requirements
Income Tax	<ul style="list-style-type: none">• 100% exemption on the first \$500,000 of net income subject to tax.• Any net income in excess of \$500,000 will be subject to taxation at the regular tax rates as established in the Puerto Rico Internal Revenue Code.
Real and Personal Property	<ul style="list-style-type: none">• 100% exemption during the 3-year period starting from the commencement of operations.
Municipal Taxes	<ul style="list-style-type: none">• 100% exemption during the 3-year period starting from the commencement of operations.

Preferential rent Program for PyMEs

This program is established for PyMEs to benefit from renting an eligible property from the DEDC and pay a minimum annual rent.

Summary of the eligibility factors and benefits.

Eligibility	Incentive
Be a PyME (individuals, corporations, partnerships, limited liability companies, or any other entity)	<ul style="list-style-type: none">• Rent an eligible property from the DEDC to establish operations.• Pay an annual rent of \$1.00 during the first 3 years of the lease.• The DEDC will establish guides for the leasing of their facilities.

Cash Grants

In addition to the Decree applications under the Incentive Codes, the Cash Grant is a separate incentive application filed with the DEDC. This incentive is available for property, plant, and equipment investment and employment level. The benefits available are determined on a case-by-case basis, according to an internal return on investment formula calculated by the DEDC and it depends on the amount of investment, amount of employees hired, and their retention. The DEDC will provide an offer letter to the grantee with the specific benefits for the business.

Incentives under special programs by the DDEC:

Category	Requirements	Incentive
New PyMEs	<ul style="list-style-type: none">• No more than 3 years of operations.• Sales of \$1M or less.• 25 or less full-time employees or its equivalent.• The incentive is provided as a cash advance.	<ul style="list-style-type: none">• Up to \$15,000 for the purchase of tools, inventory, raw material, license renewals, utilities, rent, marketing and advertising expenses, signage, and other approved expenses.
Existing PyMEs	<ul style="list-style-type: none">• 3 or more years of operations.• Up to \$3M in sales.• 25 or less full-time employees or its equivalent.• The incentive is provided through reimbursement.	<ul style="list-style-type: none">• Up to \$50,000 for the purchase of new machinery and equipment related to the business, rent, 50% wage subsidy for new full-time hires and facilities improvements.

To request the Impulso PyMEs incentive click the link below:

<https://refuerzoeconomico.ddec.pr.gov/impulso-pymes>

Innovative PyMEs

This incentive program offers the opportunity to certain PyMEs that invest in innovation supported by research and development to obtain capital to begin or continue operations. Below is a summary of who can apply and the benefits available.

Who can apply?	Incentive
<ul style="list-style-type: none">• Business related to advanced manufacturing, aerospace, bioeconomy (pharmaceuticals, biotechnology, medical devices), environmental sciences, energy and technology, whose businesses are directed to serve as a critical supplier, substituting imports, or exporting of goods or services.• Business must show that they are incurring in expenses related to research and development, which will result in changes in products, services, or processes that improve performance and business value.• Only for a business established and with operations in Puerto Rico.• Gross sales of less than \$3M that invest in new technology or science as part of their business model.• The applicant with less than 3 years of operations must have previous business experience or take certain training courses.	<ul style="list-style-type: none">• Up to \$200,000 that will be disbursed according to the needs of the business.• The business can use this incentive for:<ul style="list-style-type: none">○ the payment of payroll, rent of office space, marketing expenses, utilities, contracting of professional services and purchase of machinery and equipment, among others.○ Research and experimentation expenses for the development of new products and improvements of existing ones.○ Payment for patent applications for the invention of new products.

Machinery and Equipment Procurement Program

A program designed to help eligible businesses with the purchase of the necessary equipment and machinery, process automation expenses and resilience equipment for its operations, among others. The table below summarizes the requirements and benefits of this incentive.

Requirements	Incentive
<ul style="list-style-type: none">• PyMEs operating for 3 years or more.• Average volume of business of \$3M or less during the past three years.• Maximum of 25 full-time employees or equivalent.• Enroll in entrepreneurship training offered by DEDC.• Cannot be a beneficiary of an Act 60 decree.	<ul style="list-style-type: none">• Up to 30% of the investment, limited to a maximum of \$10,000 for the purchase of machinery and equipment or process automation expenses.• The incentive is provided through reimbursement.

To request the machinery and equipment incentive click the link below:

<https://refuerzoeconomico.com/incentivo-maquinaria/>

Seed Capital Pareo Program

This incentive is for new or recently created PyMEs and is a matching program for the capital used for daily operations of the business. Below is a summary of the requirements and the incentive available per company.

Requirements	Incentive
<ul style="list-style-type: none">• Have a new business idea or be a newly created PyME with less than 12 months of operations.• Take a business training course offered by the DEDC or by an entity approved by the DEDC.• The applicant cannot be or had been a recipient of a decree under the Incentives Code.• The business cannot be engaged in the manufacturing or export of services as established in the Incentives Code.• The business must present evidence that it has matching capital funds for the company provided by a financial institution or entity approved by the DEDC.	<ul style="list-style-type: none">• Matching program of at least \$10,000 of seed capital used for daily business operations.

To request the Seed capital incentive, click the link below:

<https://refuerzoeconomico.com/capital-semilla/>

Other programs

There are other programs that offer a whole range of sources, workshops, opportunities, and incentives to local companies. As part of these programs, the DEDC offers the following:

- Business Trainings
 - These business training workshops will be offered to PyMEs to achieve desired business development and local and international scaling.
 - Business trainings are calendarized in the following link:
 - [Refuerzo Económico DDEC - Talleres y Seminarios \(refuerzoeconomico.com\)](http://refuerzoeconomico.com)
- Entrepreneurship Centers
 - They are designed for the development and expansion of businesses. These are collaborative spaces that integrate trainings, incentives, and support programs in the same place. The Centers are located in San Juan, Ponce and Mayagüez and you can register online through email: premprende@ddec.pr.gov
- Business Certification for doing business with the Government.
 - This program pursues to involve the PyMEs to actively participate in the buying market of the Puerto Rican government.
 - To request this incentive, click the link below:
 - <https://docs.pr.gov/files/DDEC/PyMEs/Juramento%20del%20Empresario.doc.pdf>

Requirements

- Be an independent business with 51% of its capital owned by its management.
- Be incorporated or registered to do business in Puerto Rico.
- 51% or more of its employees must work in Puerto Rico.
- Have less than 25 full-time employees.
- Its gross income cannot exceed \$5M annually.
- Must be certified by Export and Commerce Program as PyMEs and be part of the Single Registry of Bidders of the General Services Administration.

- Voluntary Chain Program
 - This Voluntary Chain program is a tool offered to local businesses to have the opportunity to compete with big companies. Also allows a group of independent businesses to operate under the same name or brand with the purpose of creating common markets and being more competitive. One of the main advantages of this program is that businesses belonging to the Voluntary Chain keep their legal personality while enjoying the benefits of the chain.

Requirements	Incentive
<ul style="list-style-type: none"> • Must be endorsed by the Trade and Export Program, and by the Office of Monopolistic Affairs of the Justice Department. • Be part of an independent business group that shares a common name. • Own from one to five businesses per entrepreneur. • The services or products offered must be similar. 	<ul style="list-style-type: none"> • Secure better prices on joint purchases. • Exempts the Voluntary Chain from municipal license tax from the sales generated through the program. • Exempts the Voluntary Chain from property tax. • Allows the businesses to establish a common brand..

- Internet Service to PyMEs engaged in services
 - PyMEs may request the DEDC internet service coverage of 5 megabytes through the service provider Claro to operate their businesses. If the service is granted, it must be conceded by Claro for 6 months by means of an agreement signed by the DEDC.
 - To request the internet service incentive, click the link below:
 - <https://refuerzoeconomico.com/servicios-internet/>

CFSE Incentives:

Similarly to the DEDC, the Puerto Rico State Insurance Fund Corporation (“SIFC”) has introduced an incentive program for certain eligible PyMEs. The incentive is focused on providing a reduction in annual premium rates due for fiscal years 2023-2024 and 2024-2025 to insured employers that meet certain criteria. Below is a summary of the requirements and incentives available.

Requirements	Incentive
<ul style="list-style-type: none"> • 50 employees or less. • Annual payroll of \$1,525,000 or less. • Permanent policy in compliance with the payment of premiums or in the alternative under a formal payment plan with the SIFC. 	<ul style="list-style-type: none"> • 50% reduction in annual premium rates for fiscal years 2023-24 and 2024-25.

Other Sources of Capital:

Another option for PyMEs to secure capital for their operations is to have investors from Private Equity Funds (“PEF”) or Qualified Opportunity Funds (“QOZ”). These PEF or QOZ can invest capital into PyMEs in exchange for having some type of ownership. This helps the PyMEs with their development and contributes to the compliance of PEF and OZ to invest capital.

Our firm recognizes the value and importance of PyMEs in Puerto Rico and we are committed to keeping you informed of all the latest benefits available. We can help you navigate and secure the available incentives to ensure that you are taking advantage of all the tax benefits. Contact us today to learn more about how we can help you and maximize the growth of your business.



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