



Tax



Business



People

# International financial/insurance services and private equity funds

July 17, 2019

To continue our series and keep you informed of the most important changes to the incentives in Puerto Rico, we turn our attention to:

- **Entities engaged in international financial activities**, previously contained within Act No. 273 of September 25, 2012 (“Act 273-2012”);
- **Entities engaged in international insurance activities**, previously contained within Act No. 399 of September 22, 2004 (“Act 399-2004”); and
- **Private equity funds**, previously contained within Act No. 185 of November 12, 2014 (“Act 185-2014”).

As discussed on our first issue, Act 60-2019 (known as the Incentives Code, referred to as the “Act”) codifies all the incentives granted throughout decades with the objective of adopting a comprehensive tool of economic development. In connection to this tax alert, the Act revokes Article 61.240 of Act No. 77 of June 19, 1957, as amended, known as the Puerto Rico Insurance Code, and Act 185-2014, as amended, known as the Private Equity Funds Act, while simultaneously adopting a similar set of incentives, with some changes we discuss below.

## Tax Incentives for International Financial Entities

Act 273- 2012	New Code
<b>Income Tax:</b> 4% fixed income tax rate on net income; 6% fixed income tax rate on dividends to shareholders/partners that are Puerto Rico residents (includes alternate basic tax and alternative minimum tax).	No major changes.
<b>Municipal License Tax:</b> 100% tax exemption.	<b>Reduced</b> to a 50% exemption.
<b>Real &amp; Personal Property Tax:</b> 100% tax exemption.	<b>Reduced</b> to a 75% exemption.

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## Tax Incentives for International Financial Entities (cont'd)

Act 273- 2012	New Code
<b>Term of Tax Exemption Grant:</b> 15 years; may be renewed for two additional 15-year terms for a total of 45 years.	Second 15-year period extension eliminated, for a total term of 30 years.

## Tax Incentives for International Insurers

Act 399- 2004	New Code
<b>Income Tax:</b> \$1.2 million tax exemption on net income; 4% flat income tax rate on net income in excess of \$1,200,000. Exemption applicable at individual cell level and company level, as may be applicable.  100% tax exemption to partners or shareholders on distributions in total or partial liquidation, as well as on income derived from dividends and profit sharing.	No major changes.
<b>Municipal License Tax:</b> 100% tax exemption.	<b>Reduced</b> to a 50% exemption.
<b>Real and Personal Property Tax:</b> 100% tax exemption.	<b>Reduced</b> to a 75% exemption.
<b>Term of Tax Exemption Grant:</b> 15 years; may be renewed for two additional 15-year terms for a total of 45 years.	Second 15- year period extension eliminated, for a total term of 30 years.

## Tax Incentives for Private Equity Funds (Act 185 – 2014)

The most significant change in the private equity funds regime is that funds that wish to qualify for the benefits set forth in the Act will be subject to a tax exemption grant process. Therefore, the private equity fund treatment will be set forth in a tax exemption grant with a 15-year term that may be extended for an additional 15 years. Some of the changes incorporated include:

- i. registered investment adviser with a business office in Puerto Rico and engaged in trade or business in Puerto Rico that complies with all statutory requirements may subcontract an investment advisor that does not satisfy with said requirements; and
- ii. fund diversification modified from 20% to 50% of a qualifying fund's capital that may be invested in a single business (including affiliated businesses) within 4 years from the date of organization. Income tax provisions are maintained. Exclusion from definition of "gross income" and "volume of business" for municipal license tax purposes is unchanged. Real and personal property tax exemption is decreased from 100% to 75%.



The Act is mainly effective from July 1, 2019. Changes incorporated by the Act will not affect current grantee holders. Applicants may elect to file under previous laws or under the Act until December 31, 2019. Commencing on January 1, 2020, all applications will have to be submitted under the Act. However, the Secretary of the DEDC may implement by regulation provisions of the Act before January 1, 2020 to further the objectives of the Act.

Stay tuned for our next alert on the series regarding the noteworthy changes to the tax incentives for other industries, agriculture and entrepreneurship.

Please contact our Tax Department should you require additional information regarding this or any other tax issue. We will be glad to assist you.



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