

## Proposed amendments make Act 20 promoting the exporting of services even more attractive

Minimum employment requirement dropped; additional services added to preferential tax regime

Earlier this month Puerto Rico's Legislature approved bills SB 60 and HB 878, which remove current minimum employment requirements under Act 20-2012; would allow applicants engaged in exporting services prior to the filing of their application to receive the full benefits of Act 20; and expand the services which may receive tax benefits under the law. The bills are pending signature by the Governor of Puerto Rico.

Under Act 20, eligible businesses can benefit from a **preferential tax rate of 4%** on income derived from the export of services. Additionally, businesses may also have the benefit of a **60% exemption from municipal license taxes**, as well as, depending on the type of eligible services which are provided, receive a **100% exemption from property taxes during the first five years** of operation, and a 90% exemption for the remaining fifteen years. Shareholders of eligible businesses are also exempt from income taxes on distributions of dividends from utilities and benefits arising from income from the export of services. Act 20 benefits are memorialized in a government issued tax grant to eligible businesses for a period of 20 years, with an optional extension of 10 additional years.

Under current law, eligible businesses must employ a minimum of five persons in Puerto Rico during the first two years of operation. HB 878 eliminates the minimum employment requirement, and allows the Secretary of the Department of Economic Development and Commerce ("DDEC") to determine for each tax grant it issues, the number of jobs needed in order for an eligible business to conduct its operations. When evaluating an Act 20 application, the Secretary of the DDEC can adopt such criteria as the eligible business's contribution to the economic development of Puerto Rico, job creation and capital investment. Finally, the bill prohibits eligible businesses which have a tax grant under Act 20 (and current applicants) from discharging their employees due to the approval of the amendment to the law.



In the case of businesses that were already providing export services before receiving an Act 20 tax grant, under current law they are only eligible to receive Act 20 income tax benefits with respect to the part of their income above their average annual income for the years in which they operated without an Act 20 decree. That average annual income is referred to in the law as the "Base Period Income." SB 60 reduces the "Base Period Income" by 25% each year, making all of the business's income eligible for the tax benefits after the fourth year. This change would only apply to tax grants issued after June 30, 2017.

Finally, HB 878 expands the eligible services which may benefit from an Act 20 tax grant by including "medical tourism" and "telemedicine" to the list of eligible export services.

You may contact the attorneys at Vidal, Nieves & Bauzá should your company have any questions regarding Act 20 and Act 22, or need support with respect to any requirement to conduct business in Puerto Rico.

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