

A PUBLICATION FROM THE TAX DIVISION

ACT NO. 20 EXPORT SERVICES ACT



Please contact your account service partner should you have any questions or comments or if you need additional information regarding these matters.

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The Act to Promote the Export of Services, Act No. 20 of 2012, as amended, ("Act 20") provides tax exemptions and credits to businesses engaged in eligible activities in Puerto Rico.

Eligible Services

Eligible services include, but are not limited to:

- Research and development;
- Advertising and public relations;
- Economic, environmental, technological, scientific, managerial, marketing, human resources, computer and auditing consulting services;
- Advice on matters related to any trade or business;
- Commercial arts and graphic services;
- Production of blueprints, architectural and engineering services, and project management;
- Professional services, such as legal, tax, and accounting services;
- Centralized management services, including distribution and logistics;
- Centers for electronic data processing;
- Development of computer programs;
- Voice and data telecommunications between persons located outside of Puerto Rico;
- Call centers;
- Shared services centers;
- Storage and distribution centers for companies engaged in the business of transportation of items and products that belong to third parties (hubs);
- Educational and training services;
- Hospital and laboratory services;

ACT NO. 20 EXPORT SERVICES ACT

Eligible Services (continued)

- Investment banking and other financial services;
- Commercial and mercantile distribution of products manufactured in Puerto Rico for jurisdictions outside Puerto Rico;
- Assembly, bottling and packaging operations of products for export;
- Marketing centers primarily engaged in providing, through a rent charge, for services or other charges, certain space and services;
- Trading companies;
- Promoter services

An eligible service must also qualify as an export service, which is defined as a service rendered for the benefit of:

- An individual who is not a resident of Puerto Rico; or
- A trust whose beneficiaries, trustors, and trustees are not residents in Puerto Rico; or
- An estate whose testator, heir, legatee, or executor is not, or in the case of the testator, was a resident of Puerto Rico; or
- A foreign entity; insofar as the services do not have a connection to Puerto Rico.

Special Rules

In the case of **existing** Puerto Rico businesses, only the portion of net income derived from eligible services that exceeds the average net income generated during the 3 taxable years preceding the tax exemption decree will be subject to the reduced rates provided by the Act.

In the case of **service promoters**, the only income considered income from export services will be the net income derived from services rendered within the 12-month period ending on the day before any of the following occurs:

- The beginning of construction of facilities to be used in Puerto Rico;
- The beginning of operations in Puerto Rico; or
- The acquisition or execution of a contract to acquire or lease facilities in Puerto Rico.

The Act imposes an employment requirement of five direct employees within two years from commencement of operations and for the remaining exempted period in the activities covered by the Grant.

ACT NO. 20 EXPORT SERVICES ACT

Tax Rates & Exemptions

The Act provides the following benefits to eligible businesses under a tax exemption decree:

- A fixed tax rate of 4%¹ on income derived from the export of services.
- 0% tax rate on dividends or profit distributions to shareholders, partners or members.
- 100% exemption of real and personal property taxes to entities providing centralized management services, shared services and call centers on the first 5 years of operation. A 90% exemption will apply thereafter and until the term remaining under the exemption grant.
- 60% exemption of municipal taxes and municipal licenses applicable to the volume of business during the semester of the Government fiscal year in which the exempt business begins operations and following semesters during the term of the decree.

Filings

Eligible businesses must submit an application with the Office of Industrial Tax Exemption of Puerto Rico. Once approved, the grant is a contract between the grantee and the Government of Puerto Rico.

Businesses shall file an annual income tax return with the Secretary of the Treasury (regardless of the amount of their gross or net income) with regards to the operations covered by the Act. In addition, businesses shall annually file with the Exemption Office an authenticated report containing the signature of the Chair, managing partner, or authorized representative, and a copy for the Secretary of the Department of Economic Development and Commerce, the Secretary of the Treasury, and the Executive Director, not later than 30 days after filing the corresponding income tax return.

¹ The tax rate may be reduced to 3% if more than 90% of all the gross income of the entity is derived from the rendering of services for export, and the export services are considered by the Government of Puerto Rico "strategic services".

ACT NO. 20 EXPORT SERVICES ACT

Tax Exemption Period

An eligible business that holds a decree under this Act shall enjoy the benefits of this Act for a period of 20 years. Business that have met the requirements during the exemption period, may request to the Secretary of the Department of Economic Development and Commerce an extension of the decree for another 10 years, for a total 30 years. During such extension, the eligible business shall enjoy a fixed income tax rate of 4%.

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