

A Guide to **Doing Business**  
*in Puerto Rico*

September 2011

**PUERTO RICO  
DOES IT BETTER**



# Table of Contents



1	<b>Chapter 1: An Introduction to Puerto Rico</b>
2	Chapter 2: Establishing a Business in Puerto Rico
3	Chapter 3: Tax Systems
4	Chapter 4: Incentives
5	Chapter 5: Work-force and Labor Laws
6	Chapter 6: Real Estate, Construction, and Permits
7	Chapter 7: Environmental Law
8	Chapter 8: Financial Services and Insurance
9	Concluding Remarks





# An Introduction to Puerto Rico



## Population, Location and Geography

- Puerto Rico (PR) is roughly 100 miles long and 35 miles wide, accounting for about 3,500 square miles of terrain
- Apart from the mainland, PR has several smaller islands to call its own, including the municipalities of Vieques and Culebra
- Population is currently 3.726 million<sup>1</sup>
- Average air and water temperatures hover around the mid 80 degrees year round

<sup>1</sup>Based on 2010 U.S. Census



- 4 hour, non-stop flight from **New York**
- 2.5 hours, non-stop from **Miami**
- 4.5 hours, non-stop from **Chicago**
- 1.5 hour, non-stop flight from **Caracas, Venezuela**



# An Introduction to Puerto Rico

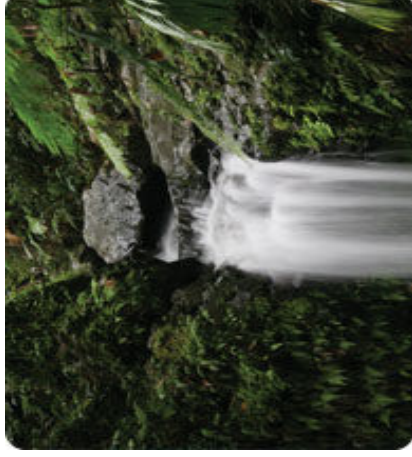


## Puerto Rico at a Glance

- PR was ceded to the United States in 1898 as part of the Treaty of Paris, which ended the Spanish-American War
- PR's local government, like those of the US, includes an executive, a legislative and a judicial branch
- As a territory of the US, PR falls within the US federal system and is subject to both US federal and local laws
- Citizenship: **United States Citizenship**
- Official languages: **English and Spanish**
- Currency: **US Dollar**

## Climate and Geography

- Temperatures hover around 83°F during winter and 85°F during summer
- Is recognized for having some of the world's best beaches such Playa Flamenco in Culebra
- Among the island's main attractions is El Yunque Rainforest, the only rainforest in the US





# Puerto Rico is the largest economy in the Caribbean



## Puerto Rico's Economy - GDP Composition by Sector

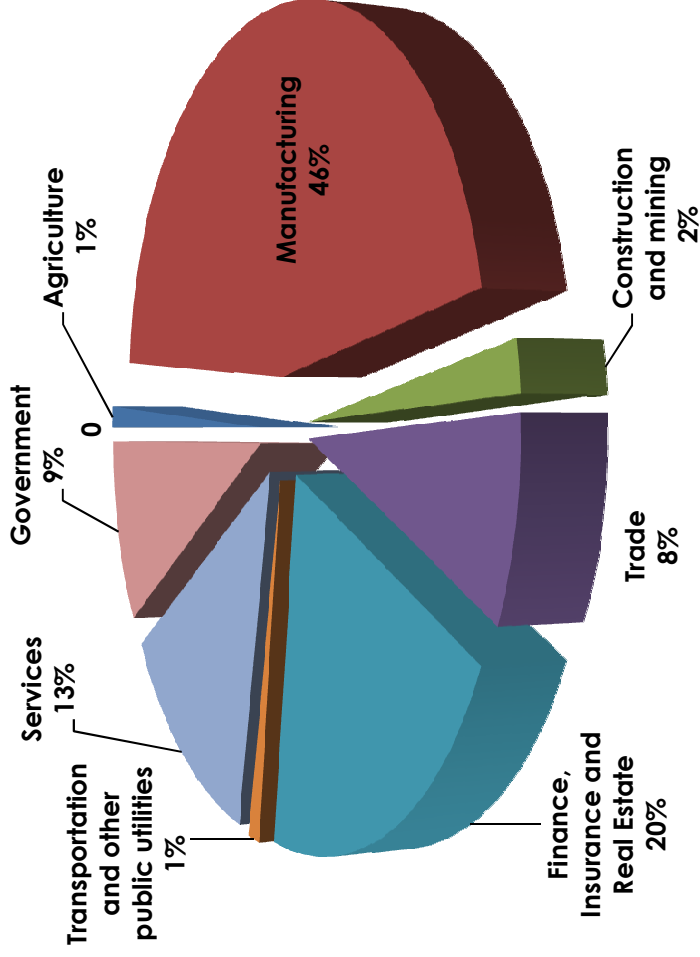
**FY 2010 GDP:**  
\$96.3 billion

**FY 2010 GP:**  
\$63.3 billion

**FY 2010 GDP  
per capita:**  
\$24,229

**FY 2010 Exports:**  
\$61.7 billion

**FY 2010 Imports:**  
\$40.8 billion





# Table of Contents



1	Chapter 1: An Introduction to Puerto Rico
2	<b>Chapter 2: Establishing a Business in Puerto Rico</b>
3	Chapter 3: Tax Systems
4	Chapter 4: Incentives
5	Chapter 5: Work-force and Labor Laws
6	Chapter 6: Real Estate, Construction, and Permits
7	Chapter 7: Environmental Law
8	Chapter 8: Financial Services and Insurance
9	Concluding Remarks



A Guide to **Doing Business**  
in Puerto Rico



# Puerto Rico has one of the most attractive business environments in the world



## Puerto Rico is OPEN FOR BUSINESS

- Highly skilled, highly educated, low cost and bilingual workforce
- Island's location serves as a gateway to the mainland US and to Latin America
- Modern and world class infrastructure:
  - One of the largest ports in the Western Hemisphere
  - Major international airport
  - Extensive and sophisticated logistics capabilities
- Highly competitive tax, infrastructure and employer incentives, and many financing alternatives to assist companies
- Protection and stability of being harbored under US federal laws, regulations and judicial systems
- Comfort and confidence in high standards of quality and service
- Fast-track permit process for investors

Luis Muñoz Marín International Airport



Port of San Juan

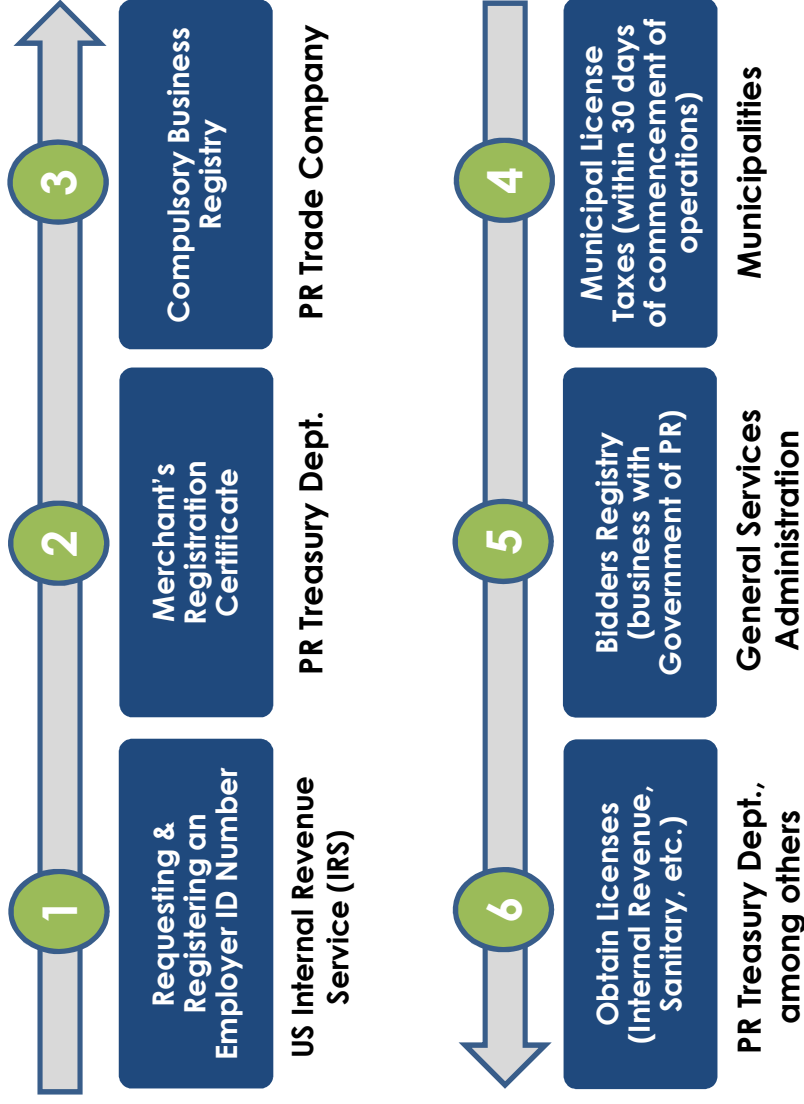




# Establishing a Business in Puerto Rico



## Basic Requirements & Procedures For Starting a Business



## Most Common Business Structures

- Sole Proprietorship
- Partnerships
- Corporations
- Limited Liability Companies
- Business Trusts
- Joint Ventures
- Cooperatives
- International Banking Entities
- Insurance Companies
- Real Estate Investment Trusts
- Registered Investment Companies
- Special Employee-Owned Corporations
- Public-Private Partnerships



# Table of Contents



1	Chapter 1: An Introduction to Puerto Rico
2	Chapter 2: Establishing a Business in Puerto Rico
3	<b>Chapter 3: Tax Systems</b>
4	Chapter 4: Incentives
5	Chapter 5: Work-force and Labor Laws
6	Chapter 6: Real Estate, Construction, and Permits
7	Chapter 7: Environmental Law
8	Chapter 8: Financial Services and Insurance
9	Concluding Remarks



A Guide to **Doing Business**  
in Puerto Rico



# The recently implemented Tax Reform reduces the tax burden on individuals



## Individuals: Pre Tax Reform

### General

- Taxed at progressive rates ranging from **7% to 33%**
- Other types of income are taxed at the following rates:
  - Long term capital gains has an applicable **tax rate of 10%**
  - Certain dividends and partnership distributions are subject to a **10% special tax**
  - Interest on certain obligations or deposits with banking organizations may be subject to a **17% special tax**

### Nonresident US citizens

- Required to file PR income tax return (unless the income tax has been paid entirely by way of withholding)

### Nonresident aliens

- Subject to a **29% income tax rate**

## Individuals: Post Tax Reform

**In 2010, Puerto Rico introduced a comprehensive tax reform, which included the following changes in individual taxation:**

- **Effective tax year 2010:**
  - Expanded the tax brackets to provide relief for all taxpayers
  - Highest tax rate will be reduced to **30%** in 2016
  - **Tax Year 2010**—tax credit for all individuals ranging from **7% to 15%** of income tax liability
- **Effective tax year 2011 and beyond:**
  - Gradually eliminate graduated rates (completely eliminate in 2015)
  - Continue expanding brackets to reduce tax burden for all taxpayers
  - Reduce to 3 the filing status for tax return purposes
  - Eliminate most deductions
  - Increase the earned income tax credit (EITC)



# The Tax Reform also positions the Island to better compete against other jurisdictions

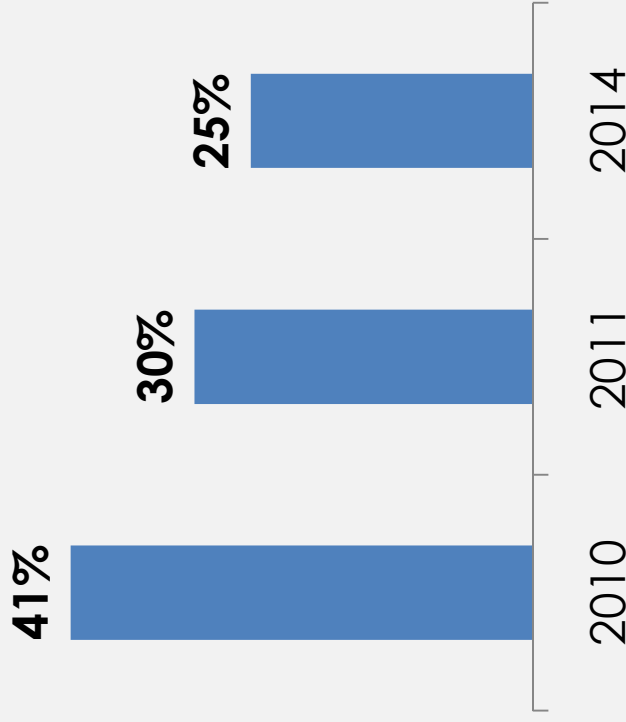


## Corporations: Post Tax Reform

- **For tax year 2010:**
  - **New tax credit of 7%** of taxes owed
  - **Increased carryover period from 7 to 10** years for net operating losses incurred between 2005 – 2011
- **Beginning tax year 2011:**
  - Reduction of maximum corporate tax rate from **41% to 30%** in 2011 and from **30% to 25%** in 2014 to promote investment and job creation
  - For example, a **small business** that generates between \$150,000 - \$200,000 and today pays 36%, starting January 2011 would drop to a **20% bracket**
  - A business that generates **\$2 million in earnings**, which today pays a 41% tax rate, would be subject to a **25% tax rate**

## Maximum Corporate Tax Rate

Pro-growth tax reform will transform Puerto Rico into a competitive location to conduct business



Source: Government Development Bank, Department of Treasury



# Table of Contents



1	Chapter 1: An Introduction to Puerto Rico
2	Chapter 2: Establishing a Business in Puerto Rico
3	Chapter 3: Tax Systems
4	<b>Chapter 4: Incentives</b>
5	Chapter 5: Work-force and Labor Laws
6	Chapter 6: Real Estate, Construction, and Permits
7	Chapter 7: Environmental Law
8	Chapter 8: Financial Services and Insurance
9	Concluding Remarks





# We have approved incentives to stimulate economic activity in strategic sectors



## Hotel & Hospitality Development

- **Act No. 118 of 2010: "Tourism Incentives for the Economic Development of Municipalities Act"**
  - ✓ **4% income tax** on industrial development income
  - ✓ **0% to 1%** tax rate on income for pioneer or novel products manufactured in PR
  - ✓ **50% tax credit** on Research and Development activities

## Tourism

- **Act 74 of 2010: "Tourism Development Act"**
  - ✓ **90% exemption** on income and property taxes
  - ✓ **100% exemption** on licenses and taxes from municipal construction and excise tax
  - ✓ **50% tax credit** of equity invested (including land) by a developer

## Cruise Industry

- **Act Num. 113 of 2011: "Promotion and Development of the Cruise Industry of Puerto Rico Act"**
  - ✓ Provides **incentives** on the sale of **cruise/hotel packages** to non-residents
  - ✓ **10% tax credit** for goods and services purchased in PR (15% if manufactured in PR)
  - ✓ Provides destination, home port and time in port incentives

## Film & Creative Services

- **Act Num. 27 of 2011: "Economic Incentives for the Development of the Film Industry Act"**
  - ✓ **40% tax credit** on production costs incurred in Puerto Rico
  - ✓ **20% tax credit** on production costs incurred by non-residents
  - ✓ **25% tax credit** on costs for development or expansion of film infrastructure projects

## Agriculture

- **Bona fide farmers qualify for the following tax benefits**
  - ✓ **100% exemption** on taxes on agricultural equipment
  - ✓ **100% exemption** on property taxes on land, buildings, equipment and vehicles
  - ✓ **100% exemption** on Municipal taxes on intensive agricultural activity



# We have approved incentives to stimulate economic activity in strategic sectors



## Manufacturing and R&D

- **Act No. 73 of 2008: “Economic Incentives for the Development of PR Act”**
  - ✓ **4% income tax** on industrial development income
  - ✓ **0% to 1% tax rate** on income for pioneer or novel products manufactured in PR
  - ✓ **50% tax credit** on Research and Development activities

## Export Services

- **Act No. 73 of 2008: “Economic Incentives for the Development of PR Act”**
  - ✓ **4% income tax** on industrial development income
  - ✓ **90% exemption** on property tax
  - ✓ **60% exemption** on municipal tax

## International Banking Entities

- **IBEs are given attractive tax treatment:**
  - ✓ **0% income tax** on income
  - ✓ **0% tax rate** on dividends/other distributions of profit outside of Puerto Rico
  - ✓ **0% tax rate** on distributions in liquidation

## International Insurers

- **Act No. 98 of 2011: International insurers are given attractive tax treatment:**
  - ✓ **0% tax rate** on income tax
  - ✓ **0% tax rate** on branch profit tax
  - ✓ **0% tax rate** on dividends/other distributions of profits

## Foreign Trade Zones

- **PR has the largest noncontiguous FITZ system in the US**
  - ✓ **Deferment** of federal customs duties
  - ✓ **Deferment** of PR excise tax
  - ✓ **100% exemption** on tangible property tax



# We have approved incentives to stimulate economic activity in strategic sectors



## Public-Private Partnerships

- **Act 29 of 2009: “Public-Private Partnerships Act”**
  - ✓ Aimed at leveraging the capital and expertise of the private sector
  - ✓ Transparent process for viable private investment in infrastructure
  - ✓ Utilize PPP’s for strategic projects include **roads, airports, schools energy and water**

## Renewable Energy

- **Act Num. 83 of 2010: “Green Energy Incentives Act”**
  - ✓ Tax credits up to **60%** for Level 1 (0-100kW) and **50%** for Level 2 (100kW – 1MW) Projects
  - ✓ Creation of 10 year, **\$290 million Green Energy Fund**
  - ✓ Opportunity to obtain **Renewable Energy Certificates (RECs)**

## Housing

- **Act Num. 132 of 2010 / Act Num. 115 of 2011: “Housing Incentives Act”**
  - ✓ **No stamp and voucher charges**
  - ✓ **No property taxes** for 5 years or capital gains tax at time of sale for buyer or seller
  - ✓ **No tax on rental income** generated from rental of property for 10 years

## Small and Medium Sized Businesses

- **Economic Development Bank Loans include**
  - ✓ **Loans of up to \$500,000** for women entrepreneurs
  - ✓ **Loans up to \$5 million** for agricultural projects
  - ✓ **Loans of up to \$500,000** for new business-owners

## Workforce and Training

- **Workforce Investment Act (WIA)**
  - ✓ **Reimburses up to 50%** of the salary of participants of on-the-job training
  - ✓ **Reimburses up to 50%** of the salary of participants in customized training
  - ✓ **Grants 100%** of training costs and up to 50% of the participants salary



# Table of Contents



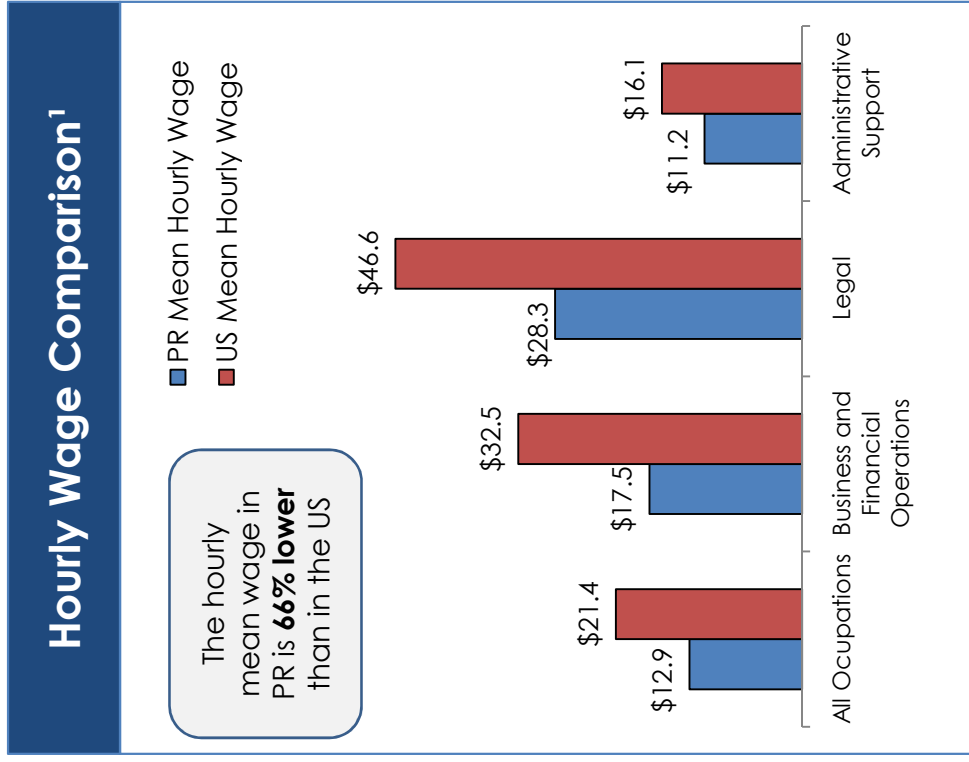
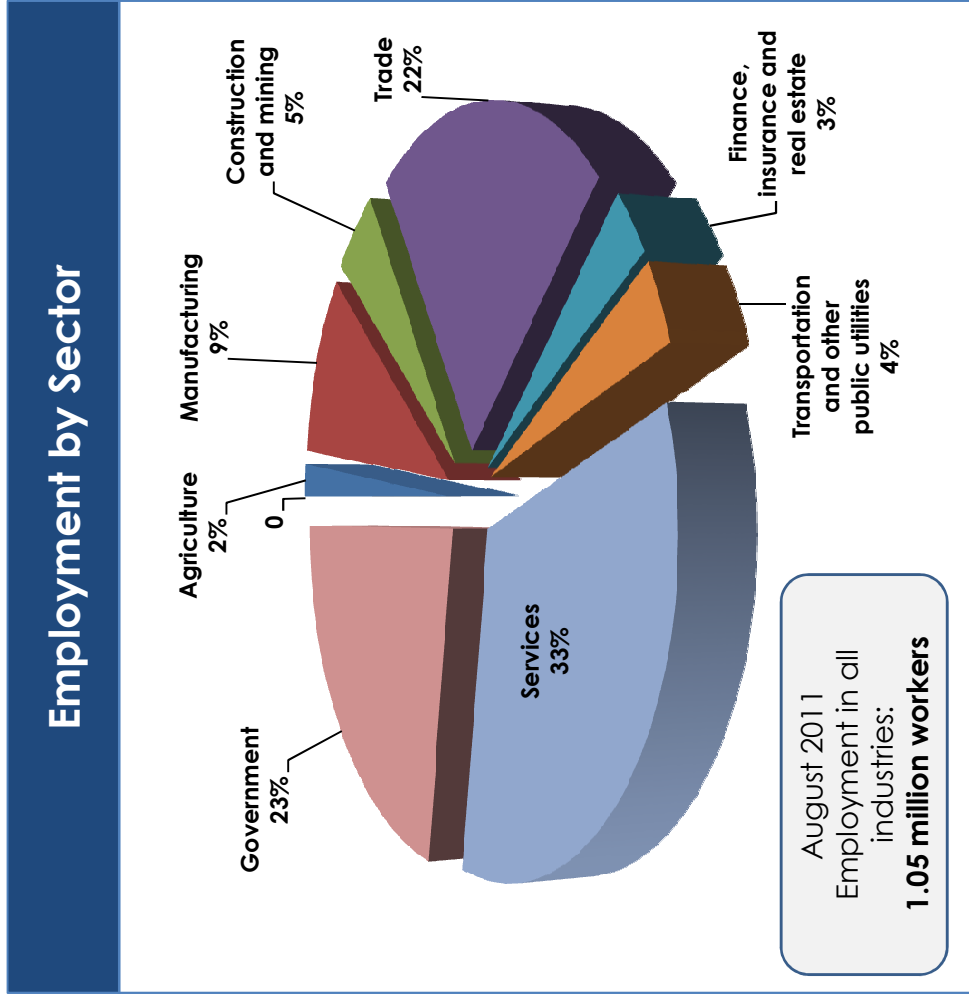
1	Chapter 1: An Introduction to Puerto Rico
2	Chapter 2: Establishing a Business in Puerto Rico
3	Chapter 3: Tax Systems
4	Chapter 4: Incentives
5	<b>Chapter 5: Work-force and Labor Laws</b>
6	Chapter 6: Real Estate, Construction, and Permits
7	Chapter 7: Environmental Law
8	Chapter 8: Financial Services and Insurance
9	Concluding Remarks



A Guide to **Doing Business**  
in Puerto Rico



# The service sector employs the largest percentage of the workforce





## As a US Territory, both federal and local labor and employment laws apply in Puerto Rico



### Employment Considerations

- **Minimum Wage:** The Federal Labor Standards Act's minimum wage, \$7.25/hour, applies to businesses operating in PR
- **Working Hours:** For employees covered under the FLSA, normal working hours should be no more than eight hours per day or forty hours per week
- **Holidays:** There are a total of 21 and federal holidays observed in PR. When a holiday falls on a Sunday, it is usually observed on the following Monday.
- **Working Age:** The FLSA permits the employment of persons between the ages of 14 and 18 only in occupations that the Secretary of Labor does not declare to be hazardous or detrimental to the health of children and with parental consent



# Table of Contents



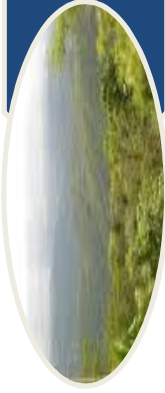
1	Chapter 1: An Introduction to Puerto Rico
2	Chapter 2: Establishing a Business in Puerto Rico
3	Chapter 3: Tax Systems
4	Chapter 4: Incentives
5	Chapter 5: Work-force and Labor Laws
6	<b>Chapter 6: Real Estate, Construction, and Permits</b>
7	Chapter 7: Environmental Law
8	Chapter 8: Financial Services and Insurance
9	Concluding Remarks



A Guide to **Doing Business**  
in Puerto Rico



**A number of government agencies own property that they make available to investors**



**Urban and Suburban Land:**

Land Administration



**Rural and Agricultural Land:**

Land Authority



**Green-field Site and Industrial Properties:**

PRIDCO



**Tourism-oriented Properties**

Puerto Rico Tourism Company



**Commercial Properties:**

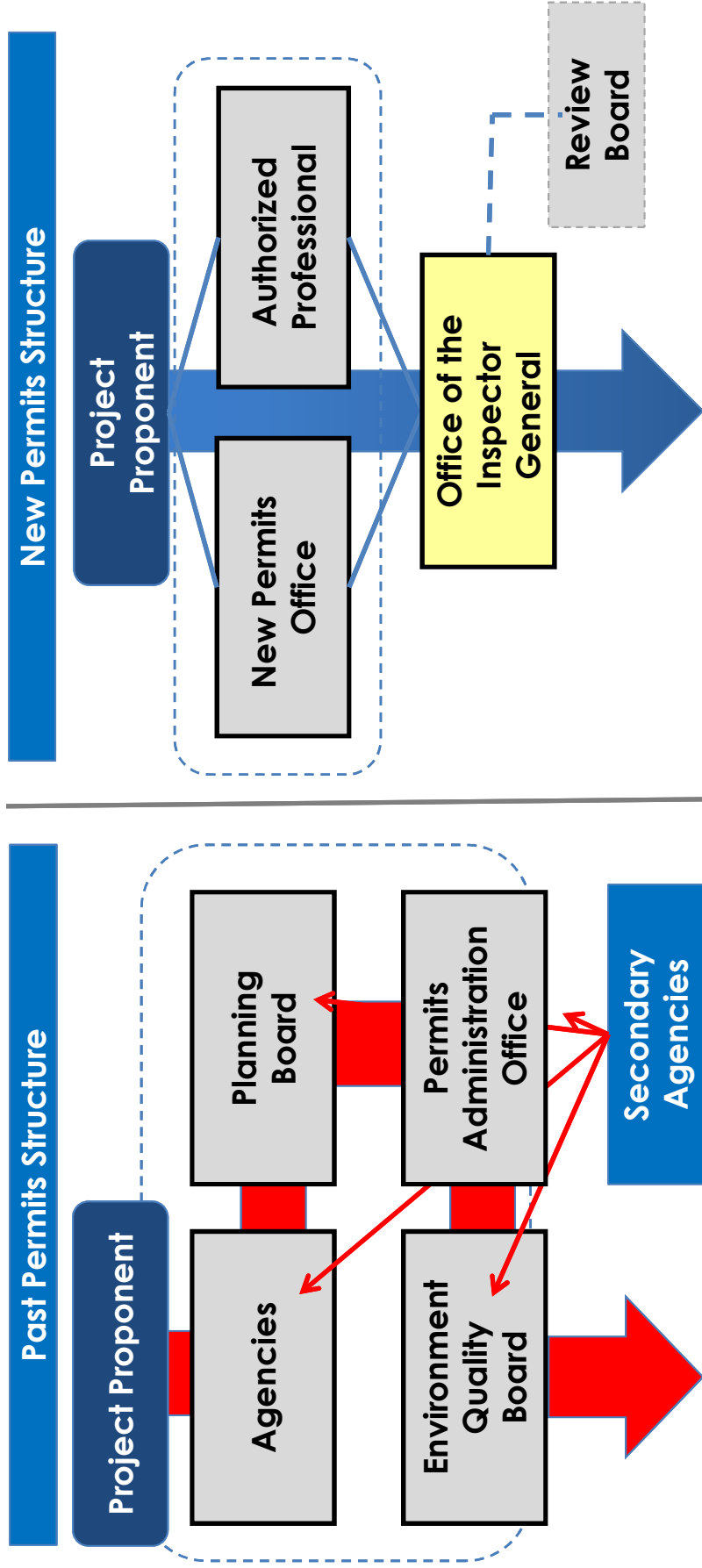
Puerto Rico Trade Company



# The recently implemented Permits Reform dramatically simplifies the permits process



## New Permit System: Live from December 1<sup>st</sup>, 2010



Sistema Integrado de Permisos



OIGPE  
Oficina de Gerencia de Permisos

OIGRE  
Oficina del Inspector General de Permisos

JUNTA REVISORA  
DE PERMISOS Y USO DE TERRENOS



# Table of Contents



1	Chapter 1: An Introduction to Puerto Rico
2	Chapter 2: Establishing a Business in Puerto Rico
3	Chapter 3: Tax Systems
4	Chapter 4: Incentives
5	Chapter 5: Work-force and Labor Laws
6	Chapter 6: Real Estate, Construction, and Permits
7	<b>Chapter 7: Environmental Law</b>
8	Chapter 8: Financial Services and Insurance
9	Concluding Remarks





# Puerto Rico follows the strict quality control standards enforced in the United States



## Key Federal Environmental Statutes

- **Resource Conservation and Recovery Act:** Primary goal is to control the generation, transport, storage, treatment, and disposal of hazardous waste
- **Comprehensive Environmental Response, Compensation, and Liability Act (Superfund):** Provides for the clean-up of heavily contaminated areas
- **Clean Air Act:** Regulates air pollutants under federal standards
- **Clean Water Act:** Regulates the discharge of pollutants into all navigable waters

## Key Puerto Rico Environmental Statutes

- EQB Regulation for the Management of Non-Hazardous Solid Wastes
- Water Pollution Prevention
- DNER-Monitoring Wells
- EQB Underground Storage Tank Regulation
- EQB Regulation for the Control of Hazardous Wastes
- PRASA Regulation for the Supply of Water and Sewer Service
- EQB Underground Injection Control Regulation
- Solid Waste Authority Recycling Requirements
- Regulation for the Control of Atmospheric Pollution



# Table of Contents



1	Chapter 1: An Introduction to Puerto Rico
2	Chapter 2: Establishing a Business in Puerto Rico
3	Chapter 3: Tax Systems
4	Chapter 4: Incentives
5	Chapter 5: Work-force and Labor Laws
6	Chapter 6: Real Estate, Construction, and Permits
7	Chapter 7: Environmental Law
8	<b>Chapter 8: Financial Services and Insurance</b>
9	Concluding Remarks



A Guide to **Doing Business**  
in Puerto Rico



# Puerto Rico has developed and sophisticated financial and insurance sectors



## Government Financial Entities

- **Government Development Bank for Puerto Rico**
  - Serves as Financial Advisor & Fiscal Agent for the Government of Puerto Rico and its instrumentalities
  - Fulfills lending needs of Government Agencies
- **Puerto Rico Economic Development Bank**
  - Supports small and med-size enterprises through asset backed lending, participation loans, credit lines and mezzanine financing

## Private Sector Financial Entities

- **Banks and Asset Managers**
  - Over 150 local and foreign banks, Coops and Asset Managers have offices in Puerto Rico
  - Banco Popular, BBVA, UBS, Santander, Merrill Lynch
  - Local regulations are enforced by the Office of the Commissioner for Financial Institutions
- **Insurance Companies**
  - Governed by the Office of the Insurance Commissioner for Puerto Rico



# Total assets under management exceed \$171 billion



Puerto Rico Financial Sector		
Financial Entity	Assets Under Management*	% of AUM
Commercial Banks	\$ 70,547	41%
International Entities	\$ 43,567	25%
<b>Government Banks</b>	<b>\$ 17,584</b>	<b>10%</b>
Investment Firms	\$ 14,254	8%
Credit Unions	\$ 7,599	4%
Mortgage Institutions	\$ 5,651	3%
Brokerage Firms	\$ 5,512	3%
Other	\$ 6,363	4%
<b>Total</b>	<b>\$ 171,077</b>	<b>100%</b>

Source: Office of the Commissioner of Financial Institutions  
 \*In millions as of Q2-2011 except for Commercial Banks which are as of Q1

**Government Development Bank**

- **“Desarrollo Para el Pueblo”** is a program managed by the GDB that fosters the creation of small businesses as the driving force behind economic development
- Facilitates and provides lower cost financing to cover start up costs and assists in the permits process

**Economic Development Bank**

- EDB-Direct Loan Program: up to \$5,000,000 for SMEs
- New Entrepreneur Program: up to \$500,000 for startup SMEs
- Women Entrepreneur Program: up to \$500,000 for woman-owned SMEs



# Table of Contents



1	Chapter 1: An Introduction to Puerto Rico
2	Chapter 2: Establishing a Business in Puerto Rico
3	Chapter 3: Tax Systems
4	Chapter 4: Incentives
5	Chapter 5: Work-force and Labor Laws
6	Chapter 6: Real Estate, Construction, and Permits
7	Chapter 7: Environmental Law
8	Chapter 8: Financial Services and Insurance
9	<b>Concluding Remarks</b>

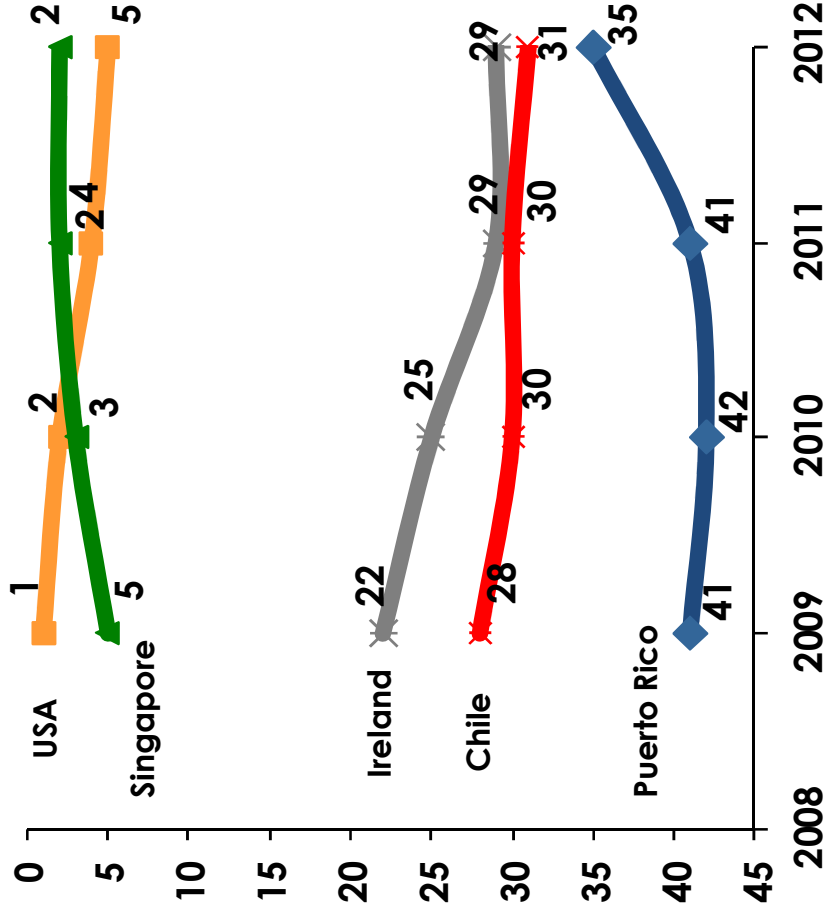




# The recent WEF Competitiveness Report positions Puerto Rico among the world's 35 innovation-driven economies



## 2011-2012 World Economic Forum Global Competitiveness Report



## 2011-2012 World Economic Forum Reports

- Puerto Rico jumps 6 positions compared to 2010**
  - Positioned 35 out of 142 jurisdictions
  - Biggest jump for any of the top 35 jurisdictions
  - The gap to Chile, the region's most competitive jurisdiction has been closed significantly
- Confirms other recent publications recognizing Puerto Rico's competitive position**
  - A jump from 53 to 45 in the most recent Travel and Tourism competitiveness Report
  - A jump from 45 to 43 in the most recent Global Information Technology Report



Come discover why  
**Puerto Rico Does it Better!**



**US Territory** sharing the **same defense and currency** and **no passport required** for US Citizens



**World-class infrastructure** including the region's **most important international airport**



Highly skilled, **educated and bilingual workforce** at lower price point



World class **tax advantages**, **permits process**, and **incentives** for businesses and individuals alike



**Sophisticated and diversified Commercial Banking and Brokerage Industry** ready to serve you needs

A Guide to **Doing Business**  
*in Puerto Rico*

September 2011

**PUERTO RICO  
DOES IT BETTER**