



# Puerto Rico *is the Answer!*

Miguel Ferrer & Gabriel Hernández  
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## For Your Business Ventures



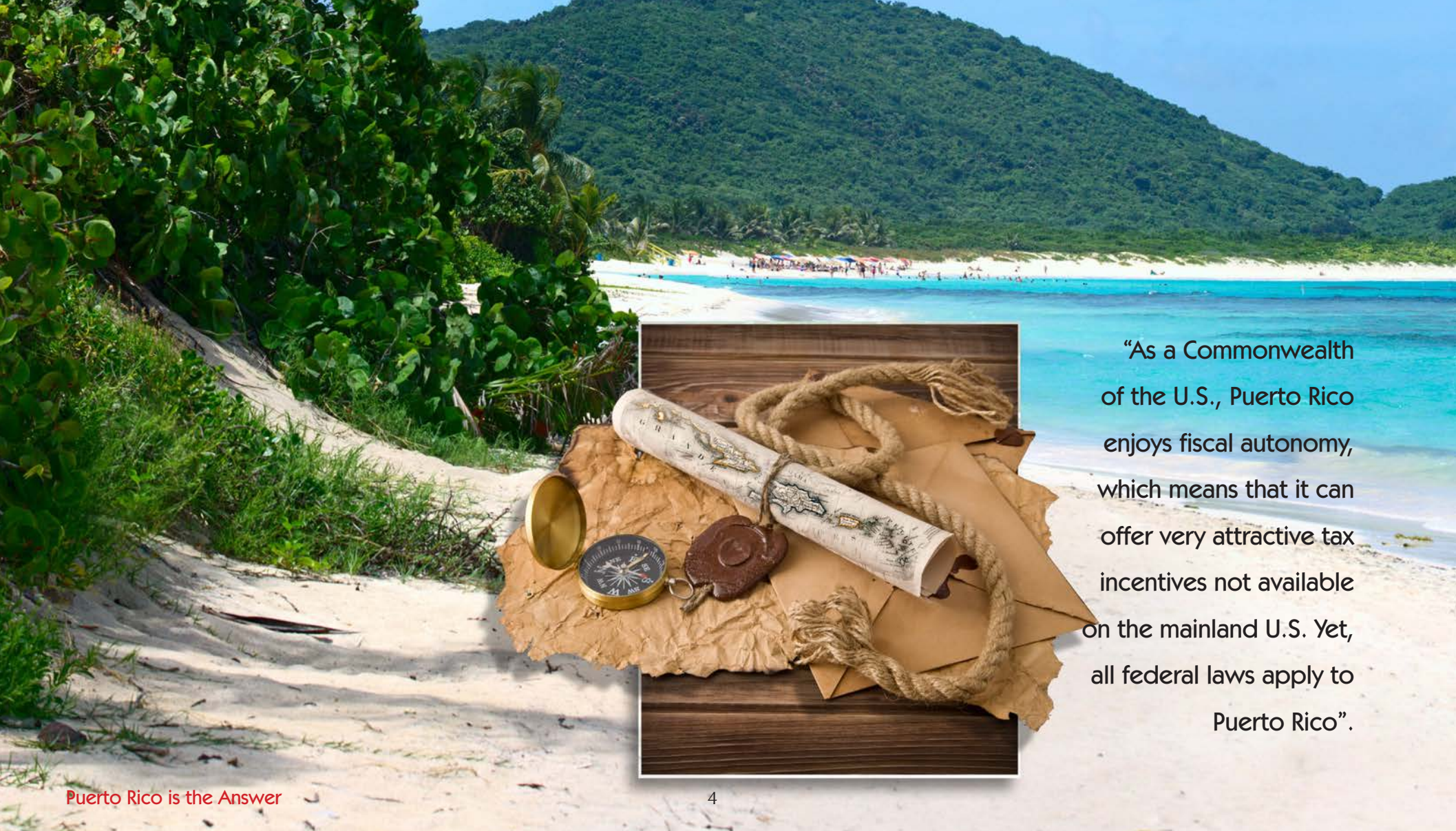
- Including start-ups,
- IPOs, headquarter
- relocations,
- hedge funds,
- manufacturing
- operations,
- social media and
- practically any
- venture you can
- dream of...



...Puerto Rico is one of the best kept secrets of the business world.

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“As a Commonwealth of the U.S., Puerto Rico enjoys fiscal autonomy, which means that it can offer very attractive tax incentives not available on the mainland U.S. Yet, all federal laws apply to Puerto Rico”.



We share a common currency, common defense and citizenship with the U.S.

No passports are needed to travel to and from the mainland.

# Introduction

Puerto Rico, the smallest isle of the Greater Antilles and with a population of approximately 4 million, boasts one of the most dynamic economies in the Caribbean. With a GNP of approximately \$64.84 billion, the island has the highest GNP per capita of Latin America. For the past 50 years, the island has been a manufacturing powerhouse. Many of the top prescription drugs in the U.S. as well as medical devices are manufactured in Puerto Rico. In the financial sphere, Puerto Rico is home to one of the most sophisticated financial markets in the hemisphere. The island has a vibrant mutual funds market of \$14 billion and financial firms on the island manage client assets that exceed \$34 billion. Yet, as a place for doing business, Puerto Rico is still a well-kept secret.

As a Commonwealth of the U.S., Puerto Rico enjoys fiscal autonomy, which means that it can offer very attractive tax incentives not available on the mainland U.S. Yet, all federal laws apply to Puerto Rico. We share

a common currency, common military defense and citizenship with the U.S. No passports are needed to travel to and from the U.S. mainland. This is a formidable combination in which the investor has access to alluring incentives, while the investments are safeguarded by: (1) the prevailing rule of law, (2) the lack of currency risk, (3) Puerto Rico's political stability, and its (4) low country risk.

The island has been part of the U.S. since 1898 and those born in Puerto Rico have been citizens of the U.S. since 1917. Yet, because Puerto Rico is not a state, federal taxes do not apply generally to income generated by individuals or corporations within the Commonwealth. Puerto Rico corporations are treated for federal tax purposes as foreign corporations and are not generally subject to U.S. corporate taxes. Individual bona fide residents of Puerto Rico are not subject to federal taxes on income derived from Puerto Rico sources. In addition, Puerto Rico has provided incentives for manufacturing operations for over

four decades. Products manufactured in Puerto Rico carry the Made in USA label.

In 2008, a new Economic Incentives Act for the Development of Puerto Rico (hereinafter, Act 73 or Economic Incentives Act) went into effect. The new law established a legal framework of incentives designed to stimulate the establishment and development of a wide array of ventures, among them manufacturing, social media, other internet-based operations, commercial businesses, and the export of services. This powerful new law, which is not well known, provides incentives for export. For purposes of seeing how versatile and ample this law is, we have included many potential examples of how you can benefit from its ample provisions. We have created these examples based on cases we have worked with over the years to illustrate how the incentives can apply to many types of businesses.



# Why us?



“Set your  
creativity  
loose;  
invest in  
Puerto Rico  
and see  
your venture  
flourish!”

Normally, a government agency would publish this type of publication. That is not the case here. We are both successful businessmen in Puerto Rico and as such we decided to take on this task as a strictly personal effort. Let us introduce ourselves. I am Miguel Antonio Ferrer and I am one of the pioneers of Puerto Rico’s financial markets, starting in the early 60s. Today, I am Chairman of the leading financial services organization in Puerto Rico. I am fortunate to have led the establishment and growth of Puerto Rico’s principal brokerage and investment banking organization. Over the years, I have helped structure countless financings for numerous entities in every possible sector of the economy, while my partner in this venture, Gabriel Hernández, complements my general business experience with his knowledge of taxes.

I am Gabriel Hernández, a founding partner of Scherrer Hernández & Co., one of the largest CPA firms in Puerto Rico. Over the years, I have worked with many multinational clients and counseled many firms

on how to make the most of Puerto Rico’s tax laws and incentives.

*An important clarification before we continue, we are acting in our personal capacity and not selling anything as part of this project nor directly benefiting from its expected results.* In fact, any potential revenue generated by this publication, if we were to sell it, will be donated to the Puerto Rico Community Foundation. We are promoting the island as a result of our deep-seated belief in Puerto Rico’s economic potential. With ***Puerto Rico is the Answer***, we hope to contribute in any way possible to an economic rebirth.

The island offers many opportunities due to its unique combination of tax laws, incentives, full access to the U.S. market; abundant well-educated labor pool; availability of telecommunications infrastructure; ample road system; easy access by air to many major U.S. cities; U.S. dollar currency; U.S. legal framework, political stability, and low sovereign risk. In addition,





a new Tax Code has just been enacted, which is even more favorable for corporations established in Puerto Rico. Oh, and let's not leave out the tropical weather, the endless miles of beaches, and the striking beauty of our hilly topography!

We are well aware of the options available to businesses elsewhere in the world and we can state that Puerto Rico offers unparalleled opportunities. Read the examples of potential ventures that we showcase in this publication and consult your tax attorney or tax consultant and you will see you are dealing with plentiful business possibilities that you can develop on our shores. Don't take our word for it; do your homework. Once you start seeing what is available, we are certain that you will come up with even more projects to develop in Puerto Rico. So, wherever you are in the world, come visit us. You will discover a new island of undeveloped treasures in the Caribbean. Set your creativity loose; invest in Puerto Rico and see your venture flourish!



“...wherever  
you are in  
the world,  
come visit us.”



You will discover  
a new island  
of undeveloped  
treasures in  
the Caribbean.”





From start-ups to established businesses:

# Making the most of business- friendly laws for investment including the Economic Incentives Act

is any gain on investment income that is made but not recognized as such before moving to Puerto Rico it will be taxed at a minimal rate of only 5% once the person has resided in Puerto Rico for 10 years.

## Attracting the wealthy to the island

He decides to inquire further into Act 22 of January 17, 2012, also known as the Act to Promote the Transfer of Individual investors to Puerto Rico. He learns that the law provides total income tax exemption on investment income to anyone who becomes a resident of Puerto Rico as long as he or she has not lived in Puerto Rico for the past 15 years. The total tax exemption on investment income is available until December 31 of 2035. He further finds out that if there

He decides to look into the purchase of one of the many gorgeous luxury properties available in the Condado-Miramar area with prices significantly lower than those of similar quality elsewhere. To his added surprise, he finds there are incentives available to promote the purchase of a property. For example, if he purchases a property before June of 2012, his property is totally exempt from property tax for five years and from capital gains tax whenever he decides to sell it as long as it is his considered his main home. As he initiates





the process of establishing his residence in Puerto Rico, he finds he can also profit from Act 20 of January 17, 2012, known as the Act to Promote the Export of Services. This new law complements the Economic Incentives Act of 2008 (Act 73) and is particularly tailored to the service area. A firm offering services that may be financial, accounting, legal, or of an architectural nature or phone banks among others may obtain a decree from the government for 20 years and extend it for an additional 10 years during which it would pay 4% income tax. Under this new law, the service firm can obtain a lengthier decree than under the Economic Incentives Act, 20 years compared to 15 years. He decides to view opportunities to invest in Puerto Rico and establish an export service operation.





# The surfer entrepreneur

## who sets up a new venture in Puerto Rico's Hi-Tech Corridor:

Let's say you are an entrepreneur who has a small software design firm with a hot new e-discovery product that is going to revolutionize the legal world because of its capacity to understand language.

Aside from your business, you are passionate about surfing. As you ponder on the future of your business, you decide to take a quick break and try Tres Palmas, one of the top surf beaches in Puerto Rico's northwestern coast in town of Rincón. You have always done your best thinking while riding the waves and you decide to check out how Puerto Rico would treat a business of your nature from a tax standpoint. Then you learn of the Puerto Rico Economic Incentives Act.

You learn you would pay 4% tax on capital gains if you sold your business while residing in Puerto Rico. So, you decide to move to Puerto Rico and complete the development of your e-product while you surf on some of the best beaches in the Caribbean.

Then, you decide to sell the company to start a new venture designing innovative software applications for a number of industries. You can hire promising young talent from the University of Puerto Rico's Mayaguez Campus where there is a top engineering school.

Your business is located near the Rafael Hernández International Airport in Aguadilla, the island's second international airport, on the island's Hi-Tech corridor, where the Las Americas Technology & Research Park is under development. This technology



park is geared towards the export of projects in computer and information technologies with common areas managed by PRTEC, a nonprofit organization committed to the development of a collaborative environment between private companies, government entities, and academia. You decide to move your current company to Puerto Rico, sell it to make the most of the tax laws, and set up a new company that would crank out innovative new software solutions for other sectors of the economy. All of this as you surf at least three times a week before going to work.

Your new business in Puerto Rico would have the following incentives:

- Pay a 4% fixed income tax rate with a 12% withholding tax on royalty payments made to non-residents.
- Distributions would be 100% tax exempt while a gain on a sale of your company's stock would be 4% during the term of the grant.
- Up to 50% credit for R&D expenses tied to intangible property during the year of the investment.





## London architectural firm establishes hub in Puerto Rico

A premier architectural firm from London wants to globalize its services. Its partners decide to find a hub to serve the Latin American market. At an international competition, several entries from young, gifted Puerto Rican architects motivate the partners to look further into what the island offers in terms of a pool of capable architects. Their interest is cemented when the bimonthly publication Design Intelligence includes an article by James Cramer, former director of the American Institute of Architects, who describes the School of Architecture of the University of Puerto Rico as one of the six unexpected options in the world that he would recommend for its excellence.

As they inquire further into what Puerto Rico offers, they find out that there is an abundance of talented architects hungering for work in their field. There are two excellent architectural schools on the island

and a law promoting the export of services, including architectural services, with generous incentives. If the firm establishes in Puerto Rico its regional offices to service the Caribbean and Latin America, it could enjoy the following benefits:

- The firm could pay a 4% fixed income tax rate.
- Distributions would be 100% tax exempt while a gain on a sale of the partnership interest would be 4% during the term of the grant.

These benefits may be available under the Economic Incentives Act of 2008 (Act 73) or under the new Export Services Act of 2011 which provides a 20 year tax decree, five more than what Act 73 offers.





## Renowned law firm in search of a regional base

On a short vacation trip to the island, one of the principals of a leading law firm in New York realizes that Puerto Rico would be the perfect place to set up the regional offices of the firm as it expands to Latin America.

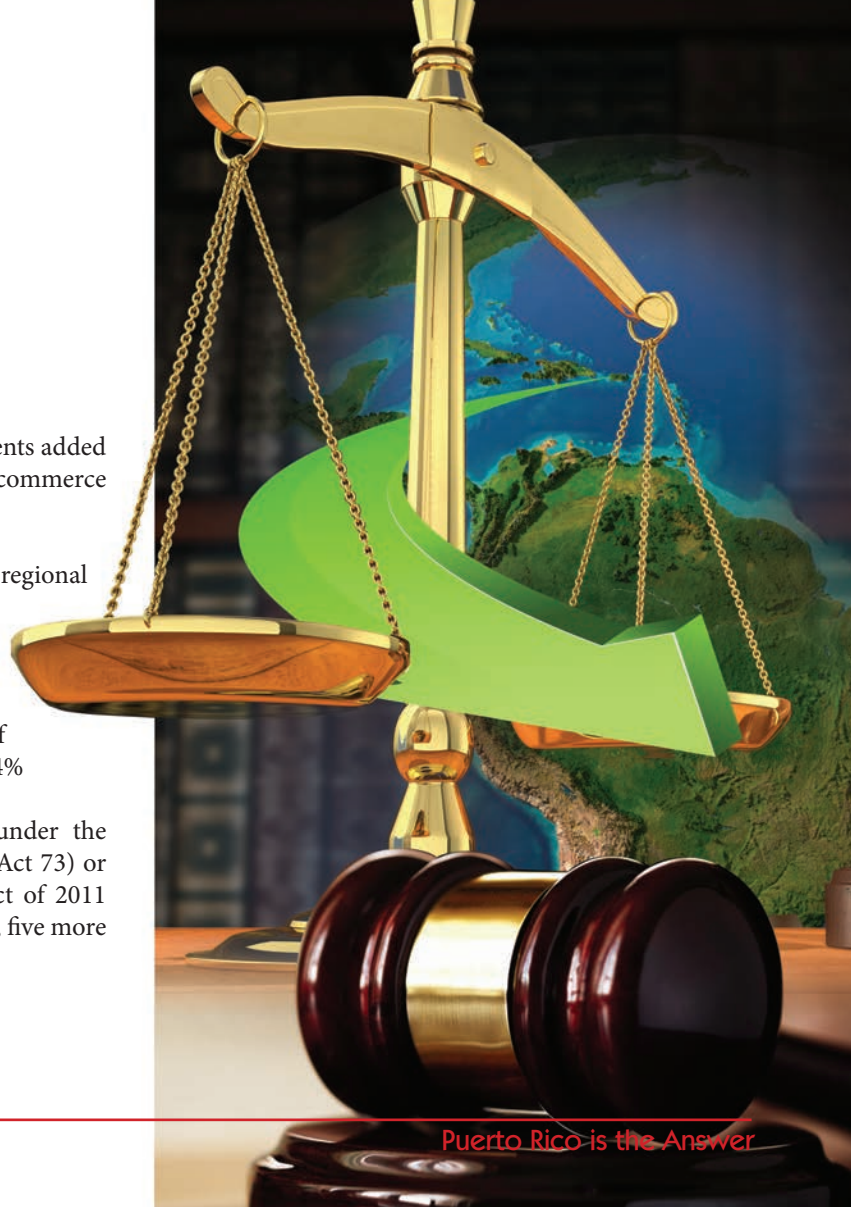
The partner finds out that Puerto Rico offers many incentives to companies that want to establish a base from which to export services to the region or the world.

In addition, as a colony of the Spanish empire for four centuries and as part of the U.S. since 1898, the island is one of the few places in the world where both the civil code and common law are practiced side-by-side in the island's federal and state courts. The availability of having a full grasp of common

law and civil law can provide prospective clients added value as they seek legal advice to engage in commerce between the U.S. and Latin America.

The benefits of establishing the regional offices in Puerto Rico would be:

- You could pay a 4% fixed income tax rate.
- Distributions would be 100% tax exempt while a gain on a sale of the partnership interest would be 4% during the term of the grant.
- These benefits may be available under the Economic Incentives Act of 2008 (Act 73) or under the new Export Services Act of 2011 which provides a 20 year tax decree, five more than what Act 73 offers.





## A Hedge Fund in San Juan with great incentives and rule of law

Concerned with the ongoing uncertainty about the taxation of hedge funds in the U.S. and the proposed tax on financial transactions in the European Union, a New York based hedge fund manager scouts a possible new location for his business. He seeks a place that provides the protection of U.S. laws, the same currency, a stable democracy, and is a relatively short flight away from New York.

As he reads the New York Times one weekend, he finds out that one of his favorite chefs, the Spaniard José Andrés, winner of the James Beard Foundation's Outstanding Chef Award, the highest honor a chef in America can achieve, will be opening his first restaurant outside the continental U.S. in Dorado, Puerto Rico. He remembers the island is part of the U.S.

He asks his tax attorney to look into what the island has to offer and is pleasantly surprised. In addition, since the island has a glut of luxury properties, he finds a gorgeous apartment with oceanfront views at a great price. He is enthused by the possibility of

creating a fund to manage investments coming from the Caribbean Basin where there are plenty of unmet needs for these services.

He can take advantage of generous tax incentives offered by Puerto Rico and provide his clients with the assurance that their funds are managed in a country with respect for the rule of law, where all U.S. federal laws apply and there is low country risk.

Puerto Rico's robust telecommunications infrastructure and well developed financial sector also serve to support the development of his business on the island. In addition, he finds a qualified pool of employees with significant capital market experience trading within the legal framework of the Securities and Exchange Commission and under its supervision.

The fund could take advantage of the following:

- A 4% fixed income tax rate on fees generated by the hedge fund for services rendered to clients residing outside Puerto Rico.
- Profit distributions from the hedge fund would be 100% tax exempt in Puerto Rico.
- These benefits may be available under the Economic Incentives Act of 2008 (Act 73) or under the new Export Services Act of 2011 which provides a 20 year tax decree, five more than what Act 73 offers.



## Benefits for the relocation of headquarters

You are a major distributor of electronics servicing the Caribbean and Latin America and you are seeking ways to reduce costs and be closer to clients. As you examine all possibilities, including the relocation of regional headquarters, you find that Puerto Rico promotes the establishment of regional headquarters with tax incentives.

You find there is ample commercial space available at great prices and a good ports infrastructure. And more importantly, you qualify for generous benefits under the Economic Incentives Act, although you are a distributing company. Your company would benefit from:

- A 4% fixed income tax rate.
- Distributions would be 100% tax exempt while gain on a sale of the partnership interest would be 4% during the term of the grant.

Additionally, you can examine the possibility of adding value to your operation by taking advantage of the benefits offered by the Foreign Trade Zones on the island. Under the Economic Incentives Act, if you establish an operation in Puerto Rico for export and establish it in

a foreign trade zone, you can take advantage of the Economic Incentives Act and the benefits provided by the Foreign Trade Zones.

Puerto Rico has three operators of Foreign Trade Zones who sublease the space and service to companies interested in operating under the benefits provided by the zones. These are Zone #61 in San Juan managed by Compañía de Comercio y Exportación (CCE); Zone #163 in Ponce managed by CODEZOL, and Zone #7 managed by the Puerto Rico Industrial

Corporation (PRIDCO), a government development company. PRIDCO manages the largest contiguous foreign trade zone under the U.S. flag. Puerto Rico's Free Trade Zones ranked among the first 15 in the U.S., according to a report by the National Association of Foreign Trade Zones.

Adding certain amount of value to the product in the Foreign Trade Zone allows the product to be labeled Made in USA and enters the U.S. market duty free.





## A group of talented software engineers want a base for social media business

As this capable group of friends hit it off with their first venture, they decide to evaluate where to formally establish their business. Two of the members, who are Puerto Rican, take on the responsibility of checking out what their island has to offer and report back to the group. They are pleased when they realize that Puerto Rico offers an enticing package:

- They would pay a 4% fixed income tax rate.
- Distributions would be 100% tax exempt while a gain on a sale of the company's stock would be 4% during the term of the grant.

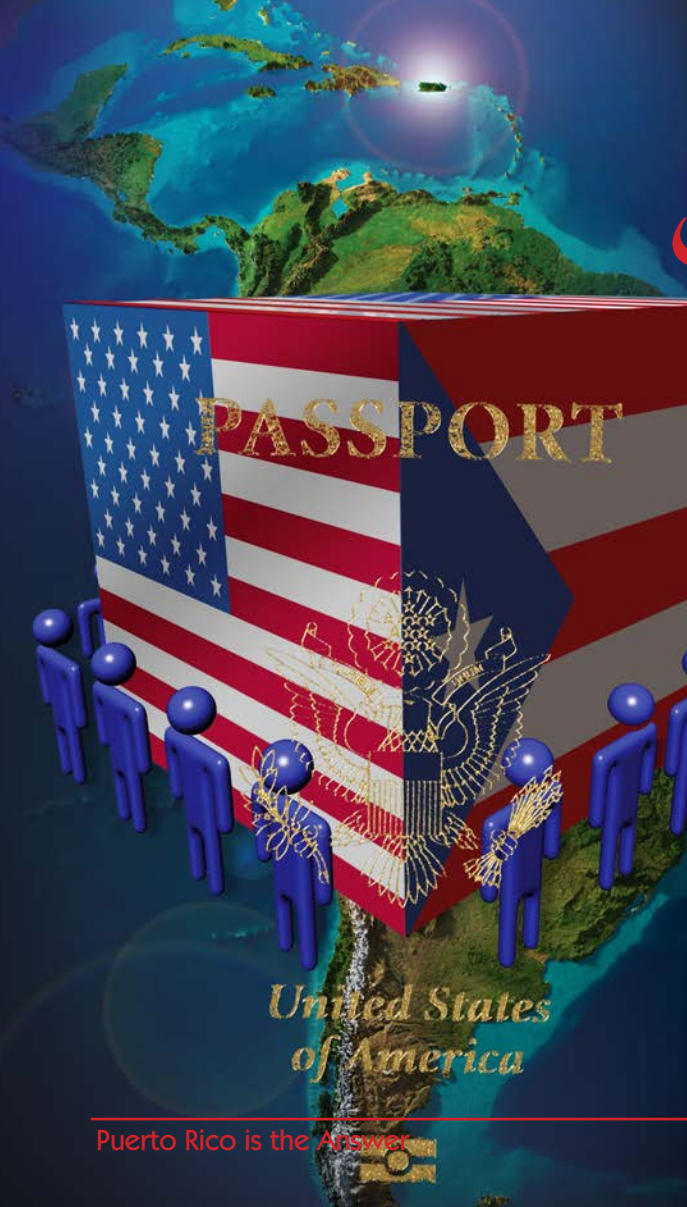
In addition, there is a talented pool of software engineers that can help the company grow. The group decides to move to the island; establish their venture as a domestic company, and rent out space in a loft-like building of Santurce, a section of San Juan that offers an emerging arts scene recently reported on by the New York Times and great eateries.



A tropical sunset over the ocean with palm fronds in the foreground. The sun is low on the horizon, creating a bright reflection on the water. The sky is a mix of blue and orange, with some clouds. The palm fronds are dark and silhouetted against the sky.

The island of Puerto Rico has fiscal autonomy, which means it can offer very attractive tax incentives that are not available in the U.S. mainland.





# A welcome mat for international investors seeking U.S. citizenship

## A foreign billionaire wants to become a U.S. Citizen

You have managed to create a vast multinational telecommunications business. You want to become a dominant player in the U.S. market and decide it is time to move to the U.S and become a U.S. citizen.

However, becoming a citizen takes time and you are worried about the tax impact of the move on your business. Then on a visit to Puerto Rico, where you also have operations, you learn that there are significant U.S. estate tax advantages associated

with becoming a U.S. citizen in Puerto Rico and maintaining domicile on the island.

Under federal law you can accelerate the process of gaining a green card and becoming a U.S. citizen if you make an investment in a commercial enterprise in the United States (including Puerto Rico) and plan to create or preserve ten permanent full time jobs for qualified United States workers.

Plus, under the Economic Incentives Act, if you establish an operation in Puerto Rico for export you can take advantage of the Economic Incentives Act.



Then your company would pay:

- A 4% fixed income tax rate.
- Distributions would be 100% tax exempt while a gain on a sale of the company's stock would be 4% during the term of the grant.



## A billionaire wants to establish foothold in U.S. economy

Over the past 20 years, you have built a vibrant International Trading Company in Asia and, as you are exploring a possible move to the U.S. to expand the global reach of your company, you consider moving to the U.S. and becoming a U.S. citizen. As part of your investigation into the matter, you learn what Puerto Rico has to offer. One exciting plus is a significant U.S. estate tax advantage associated with becoming a U.S. citizen in Puerto Rico while maintaining domicile in Puerto Rico.

Beyond the Economic Incentives Act, you would have access to the benefits of the Foreign Trade

Zone if you are adding value to your products on the island. Raw materials could be imported duty free until the product is ready to enter the U.S. market. If you add significant value to the product in Puerto Rico, you ship to the U.S. and its territories duty free. If you ship outside the U.S. you do not pay import duties in the U.S. or Puerto Rico.

You can:

- Become a U.S. resident immediately in Puerto Rico by taking advantage of a provision that allows you to invest \$500,000 and create 10 jobs and you may







be granted conditional U.S. residency. (Alien Entrepreneur, I-56)

- As an export business, your company would qualify for the Economic Incentives Act in which you would only pay a 4% income tax.
- You can import product and not pay duties. If the product qualifies for the Made in USA label, it can enter the U.S. market duty free.
- For import and export alternatives you may use the air cargo facilities at the Rafael Hernández Airport in Aguadilla,

the Luis Muñoz Marín International Airport in San Juan or examine the facilities being developed at the Port of the Americas in Ponce or use the Port of San Juan. You can establish your company anywhere on the island and still have access to ports since the island is only 100 miles long by 35 miles wide.

# A Haven for Financial Ventures in International Insurance and Banking

## Oil and natural gas exploration company explores benefits of captive insurance company

A U.S. based oil and Natural Gas Exploration Company is searching for new oil and natural gas underwater reservoirs off the coast of South America. It needs to insure its risk and is seeking a safe place, with a strong & knowledgeable regulatory framework that will provide assurance to its investors that the risks are adequately insured.

It comes to their attention that Puerto Rico has one of the most competitive captive insurance legal and tax frameworks around and, in addition, the island has a robust support system of top notch legal services, accountants and investment bankers well versed in the intricacies of financial transactions.

Although an island of 3.7 million people, Puerto Rico is the third largest insurance market per capita in Latin America, with a total premium volume subscription of \$10.3 billion for 2010.

The company would request a Class 1 license for a pure captive insurer as it would only be insuring the risk of its parent company. It would require a \$500,000 minimum capital and surplus and a basic application fee of \$1,100 for a Class 1 Authority.

### Benefits

- No income tax on initial \$1.2 million of net income, and tax rate of 4% on income over that level.
- No municipal license tax,
- Nor real and personal property tax
- No withholding tax on dividends distributed by the international insurer.
- Annual license fee of \$5,000 for annual premiums no greater than \$25 million.
- Maximum of \$75,000 as annual license fee on annual premiums no greater than \$250 million.
- The Puerto Rico Insurance Code is in line with standard U.S. insurance legislation, and has been periodically updated with provisions from model statutes recommended by the U.S. National Association of Insurance Commissioners (NAIC). The Code provisions governing international insurers are similar to mainstream legislation adopted by competing domiciles such as Vermont, Bermuda, South Carolina or the Cayman Islands.
- Tax exemption decree is issued to international insurer, guaranteeing for at least 15 years the tax benefits described above.







## **A large insurer looks for ways to minimize risk from portfolio with captive insurance market**

A U.S. based insurer wants to refinance some of its life and disability portfolios and place the risk in a captive insurance market in order to be able to take on more insurance policies. As it compares the growing number of destinations with captive insurance legislation in place, including several states, it looks at Puerto Rico.

The company is favorably impressed by the legislation; under it, a Class 5 Unrestricted Life Disability would require a minimum capital and surplus of \$750,000. The company would qualify for the same incentives described in the

previous case study (including the 15-year tax incentive decree), and would pay an annual license fee of \$35,000 based on a premium volume of \$100 million.

Puerto Rico offers the safety of being a jurisdiction under the protection of the U.S. federal rule of law while promoting investment through substantial tax incentives. The company finds that there is an ample supply of highly qualified support services in terms of legal, accounting and financial services, with an established regulatory framework.

# A Wealthy Family Group looks to invest its wealth in a safe jurisdiction

**The island's allure is even greater when combined with the protections offered by laws under the U.S. flag**

Due to political instability at home, this wealthy family group has come to Puerto Rico to evaluate alternatives to manage its wealth under the International Banking Center Regulatory Act.

They find out that, as of 2012, an International Banking Entity (IBE) established under the law will enjoy 100% income tax exemption on income earned from its international operations. Dividends, profit participation, and other distributions to shareholders, partners or owners not residing in Puerto Rico are also tax exempt.

The island's allure is even greater when combined with the protections offered by laws under the U.S. flag. Puerto Rico offers investors the security of federal laws and regulations, as well as, compliance

with international regulations demanding transparency. Puerto Rico offers the investor an opportunity to invest, as well as, to set up an entity of this kind due to the favorable tax treatment with no taint from being seen as a shady tax haven.

Puerto Rico is home to about 30 IBEs with assets of over \$40 billion. IBEs must be created with at least \$5 million in capital and request a license from the Office of the Commissioner of Financial Institutions (*Oficina del Comisionado de Instituciones Financieras* [www.cif.gov.pr](http://www.cif.gov.pr)).

The island has good air connections and infrastructure, as well as, the kind of ample availability of specialized financial resources needed to manage large funds.







# A paradise for R&D ventures

## A Nanotechnology Entrepreneur seeking to boost business

A researcher, who had spent some time at the University of Puerto Rico (UPR) as a full-time professor and researcher, is part of a new business conducting R&D in the expanding field of nanotechnology to make space travel cheaper and more fuel efficient.

The company is about to license one application and the former UPR researcher requests that the chief financial officer (CFO) propose the best options to continue with the R&D process, since the company will need to make the most of available resources. The company CFO comes back with the following information:

- R&D activities qualify for the ample benefits offered by the Economic Incentives Act.
- The company could also benefit from the Scientific Investigators Incentives Act (Act 101) by which qualifying scientists conducting research will be exempted from paying taxes on income of up to \$195,000 for income in excess of his base salary as professor. Scientists need to be tied to an institution of higher education conducting research to obtain the tax benefit.
- In addition, the Puerto Rico government is developing a science park, called Science City in the center of the metropolitan area connected by the Urban Train, a light train system, to two of the major campuses of the University

of Puerto Rico and next to the Molecular Science Complex, the future Comprehensive Cancer Center, and the existing Medical School and Botanical Garden.

Under the Economic Incentives Act, your business could pay under two alternatives of very low tax rates:

- Two alternatives for your business: (1) you either pay a 4% fixed income tax rate and 12% withholding tax on royalty payments made to non-residents or (2) you pay an 8% fixed income tax rate and 2% withholding tax on royalty payments made to non-residents.
- Distribution of dividends would be 100% tax exempt to shareholders who are residents of Puerto Rico while a gain on a sale of the company's stock would be 4% during the term of the grant.
- Up to 50% credit for R&D expenses tied to intangible property during the year of the investment. The R&D tax credit can be used by the business, sold to a third party or used to defray energy costs.
- In addition, through the Science & Technology Trust, the venture could receive Small Business Innovation Research and Small Technology Transfer Research matching funds and patent support.
- Up to 10% credit for industrial energy consumption.

When you combine federal subsidies for R&D and Puerto Rico incentives for this purpose, you may conduct these activities at 25% of the costs found in the U.S.



## Spurring the growth of your Agro R&D firm

A medium- sized research company that conducts R&D for major Agro companies is seeking locations to conduct research and expand its operations.

Several company members attend a conference at the University of Puerto Rico, Mayagüez campus, and learn of ongoing research in the agricultural field. They find out that there is an active agricultural research field in Puerto Rico tied to the Mayagüez campus and two new laws could further spur the growth of your company.

The Scientific Investigators Incentives Act (Act 101) would be a great incentive for your researchers to contemplate moving to the island since they would be exempt from paying income tax on income of up to \$195,000 for income in excess of his base salary as professor. (Scientists need to be tied to an institution of higher education conducting research to obtain the tax benefit.) In addition, the company would qualify for the Economic Incentives Act, which would produce enormous savings. The Science & Technology Trust could also help out with grants to further develop and license the discoveries.

The ongoing business in Puerto Rico would have the following benefits:

- Two alternatives for the business to pay income tax and royalty payments:
- 4% fixed income tax rate and 12% withholding tax

on royalty payments made to non-residents;

- Or, the company pays an 8% fixed income tax rate and 2% withholding tax on royalty payments made to non-residents.
- Distribution of dividends would be 100% tax exempt to shareholders who are residents of Puerto Rico while a gain on a sale of the company's stock would be 4% during the term of the grant.
- Up to 50% credit for R&D expenses tied to intangible property during the year of the investment. The R&D tax credit can be used by the business, sold to a third party or used to defray energy costs.
- Up to 10% credit for industrial energy consumption.
- 35% credit for purchases of products manufactured in Puerto Rico that are recycled, which can enable you to cut costs on the packaging of your product.
- \$5,000 incentive for each job created during the first two years and sustained for three additional years.

In addition, the island's tropical climate and the fertility of the soil create the potential to research more varieties of seed during the year allowing for four to five crops per year compared to two crops in colder climates. There are other major research firms on the island and an ample talent pool to expand the operation.

The maximum amount of the credit to be granted is \$8 million per exempt business. A further advantage of the law is that credits can be sold and there is a healthy secondary market on the island for the purchase of R&D credits.



## A film producer focuses on Puerto Rico

A film producer decides to scout Puerto Rico as a location for his next film after learning of the Puerto Rico Film Industry Economic Incentives Act of March 4, 2011 and the favorable experiences of the production teams of *The Fast and the Furious V*, and the latest chapter of *Pirates of the Caribbean*.

He finds that there is a 40% transferable tax credit on payments made to Puerto Rico residents and 20% transferable tax credit on non-resident talent that includes actors and stuntmen. Payments made to non-resident talent are subject to 20% withholding on their Puerto Rico income. The island offers an annual credit cap of \$50 million in film tax credits.

Tax credits are sold with discounts of 8% to 15% and the island offers the services of firms, such as Production Advisory Services of Puerto Rico that provide legal and accounting advice on how to make the most effective use of the benefits provided. The company can also find buyers for the tax credits.

In addition, the island has an ample supply of qualified technical talent used to the work ethic that characterizes U.S. productions. He also finds there is great diversity in scenery available on the island and the distances are short, which simplifies the logistical aspects of the film production. He decides to film his next project on the island.

Variety, the industry publication, lists as essential contacts on the island:

Mariella Pérez Serrano, Puerto Rico's Film Commissioner since 2009. She worked on high profile projects, such as *The Rum Diary* and *Fast Five*, both filmed in Puerto Rico. Prior to her post as film commissioner, she worked as a consultant in Madrid.

Antonio J. Sifre is a corporate and entertainment attorney with Production Advisory Services of Puerto Rico, which works with the legal and tax aspects of film production in Puerto Rico. Sifre co-drafted the original and current 2011 film law in Puerto Rico. He also works with clients in the music, television, and internet industries.

Rosi Acosta is a unit production manager and supervisor with 25 years of experience working with independent films and made-for-TV movies. She is vice president in the production services company of KCPR in partnership with LA based producer, Kip Konwiser.

There are other key people with ample film experience on the island.

Some of the more recent projects are:

- A Perfect Gateway from Relativity Media
- Behind Enemy Lines III- 20th Century Fox
- Che (Telecinco Cinema/Wild Bunch)
- Eastbound and Down (HBO)
- Princess Protection (Disney Channel)
- Royal Pains (NBC Universal)
- The Company (Sony Pictures)
- The Rum Diaries





# Energy, Technology and Infrastructure

## European Wind Turbine manufacturer seeks to expand market in U.S.

A large wind turbine manufacturer is seeking to expand its market in the U.S. and make the most of President Obama's renewable energy policies. The company researches potential places to manufacture the wind turbines in U.S. territory and comes across what Puerto Rico offers:

- There are two alternatives to consider, in paying income tax and royalty payments:
  - 1) 4% fixed income tax rate and 12% withholding tax on royalty payments made to non-residents;
  - 2) Or, the company pays an 8% fixed income tax rate and 2% withholding tax on royalty payments made to non-residents.
- Distributions would be 100% tax exempt while a gain on a sale of the company's stock would be 4% during the term of the grant.
- Up to 10% credit for industrial energy consumption.
- 35% credit for purchases of products manufactured in Puerto Rico that is recycled which can enable you to cut costs on the packaging of your product.
- \$5,000 credit for each job created during the first year and sustained for three years.

The company can also make the most of the available foreign trade zones. It would not have to pay duties on raw materials imported; and, if enough value is added to qualify for the Made in USA label, then it would not pay any duties on the products once they were shipped to the continental U.S. or to any other U.S. territory.



## Satellite maker with U.S. Defense contract

A satellite maker with a lucrative Defense contract takes note of the growing aerospace industry in Puerto Rico and decides to see what the island has to offer. Also, as a territory of the U.S., the company can make sensitive components in Puerto Rico. The company can qualify for the Economic Incentives Act and obtain the following incentives:

- Two alternatives for the business to pay income tax and royalty payments:
  - 1) 4% fixed income tax rate and 12% withholding tax on royalty payments made to non-residents;
  - 2) Or, pay an 8% fixed income tax rate and 2% withholding tax on royalty payments made to non-residents.
- Distributions would be 100% tax exempt while a gain on a sale of the company's stock would be 4% during the term of the grant.
- Up to 50% credit for R&D expenses tied to intangible property during the year of the investment.

- Up to 10% credit for industrial energy consumption.
- 35% credit for purchases of products manufactured in Puerto Rico that is recycled which can enable you to cut costs on the packaging of your product.
- \$5,000 credit for each job created during the first year and sustained for three years.

The company's researchers can also benefit from the Scientific Investigator Incentives Act and not pay income tax on income of up to \$195,000.





# More on Puerto Rico

Puerto Rico offers top private schools. Many of their graduates go on to study in the upper echelon of U.S. universities or at the University of Puerto Rico.

The University of Puerto Rico, the state school, offers excellent accredited programs at very low rates. The private university system also offers quality program. They include the InterAmerican University, the Ana G. Méndez System, Sacred Heart University, and the Polytechnic University, just to name a few.

There is a plentiful supply of talented, educated people. The official languages are Spanish and English and about 20% of the island's population is fully bilingual.

Puerto Rico's banks are part of the U.S. banking system, regulated by the same institutions that regulate banks in the U.S., as well as, by a local Commissioner of Financial Institutions. The island is serviced by four local financial institutions, two Spanish banks and one Canadian bank with total assets of approximately \$68 billion, as of December 31, 2011. They are supervised by the Office of the Commissioner of Financial Institutions of Puerto Rico, the FDIC and the Federal Reserve. Also operating to service clients outside the Island are various banks established as International Banking Entities. They have a total of approximately \$2.3 billion in assets.

The island has over 50 hospitals, about half of them in the metropolitan area of San Juan. Doctors, many of them U.S.

trained, are available in many specialties. Telecommunications infrastructure is competitive. There are five mobile phone companies in addition to numerous providers of broadband services. Currently, there are 3,000,000 mobile lines in an island with a population of 3.7 million and 60% of the mobile calls are on 3G networks.

The island has an extensive road system, but lacks good public alternatives of transportation, with the exception of the Urban Train, which runs from Bayamón to Santurce, roughly about 10 miles. The Urban Train, a fully automated rapid transit that serves the metropolitan area of San Juan, was recently chosen by the Federal Transit System as the safest and most efficient system in the U.S. There are several projects underway to expand the reach of the public system to Old San Juan and to Caguas and Carolina.

Housing alternatives are ample. The real estate market provides plentiful attractive alternatives for corporate rentals at competitive rates. The annual average temperature is 80 degrees Fahrenheit (26 degrees Celsius). Rain is abundant yet as typical of a tropical climate the sun often comes out bright and shiny after a downpour.

The island offers miles of coastline, beautiful mountains, and tropical forests, offshore islands to explore, great fishing, diving, and golf courses, and wonderful restaurants with a diverse fare that ranges from local cuisine to American, Cuban, Dominican, French, Italian, Middle Eastern, Spanish, Mexican, Peruvian, Chinese, and Japanese delicacies.







# Who we are?

## Miguel A. Ferrer

Miguel A. Ferrer is one of the most prominent leaders in the financial services sector of Puerto Rico. As current Chairman of UBS Puerto Rico, Ferrer is responsible for strengthening relationships with UBS leading stakeholders, while supporting the development of Puerto Rico's financial markets. Prior to his current role, he had been CEO of UBS Financial Services Incorporated of Puerto Rico since 2005. In 1983, he was named President of PaineWebber's Puerto Rico operations (PaineWebber was later merged into UBS). In addition, he is the founder, Chairman, and CEO of UBS Trust Company.

Over the course of his career, Ferrer has greatly contributed to the development of the securities industry in Puerto Rico, while also serving on the boards of public corporations and nonprofits, both in Puerto Rico and in the continental U.S.

Currently, he is a trustee of the Puerto Rico Museum of Art and of the Historical Foundation of the Supreme Court of Puerto Rico. He is co-founder of the Scholarship Fund of Cornell Alumni in Puerto Rico.

Some of the areas in which he has served or currently serves:

- Trustee of the Board of Cornell University, 2001-2009
- Member of the Advisory Board of the University of Puerto Rico
- Member of the Board of the Puerto Rico Aqueduct and Sewer Authority
- Member of the Board of the Puerto Rico Corporation for Public Broadcast
- Member of the Board of the Museum of Art of Puerto Rico
- Member of the Board of the Museum of Architecture of Puerto Rico
- Member of the Board of the Rafael Hernández Colón Library Foundation (former Governor of Puerto Rico)
- Member of the Board of the University of Puerto Rico Foundation
- Former President and member of the board of the Financial Analysts Association of Puerto Rico
- Former President and member of the board of the Securities Industry of Puerto Rico

Ferrer is a graduate of Cornell University. He has a bachelor's degree in Arts and a master's in Business Administration from the university. He is an avid art collector and philanthropist.







## Gabriel Hernández, CPA

Gabriel Hernández is the Head of the Tax Division at Scherrer Hernández & Co., a firm that he founded together with Fernando Scherrer in 2000. Today, Scherrer Hernández & Co. is the 2nd largest local accounting firm in Puerto Rico, serving a portfolio of over 600 clients through a talented group of approximately 100 professionals. Currently, it is the fourth largest among accounting firms doing business in Puerto Rico.

Among his prior experience, Hernández has 12 years of experience working in the Tax Department of major international accounting firms. Prior to founding his business, he spent the last five years of his career at the international accounting firm of Price Waterhouse (now PricewaterhouseCoopers, LLP or PwC), where he was promoted to Senior Tax Manager in March of 1996. During this period, he acquired expertise in local, foreign, and international tax issues.

Hernández has specialized in providing tax consulting services to clients in all aspects of U.S. and P.R. taxation, principally in structuring mergers and

acquisitions and outbound and inbound investments, including experience in assisting clients in negotiating tax exemption packages under the various tax incentives laws available in Puerto Rico.

Hernández has a Bachelor's degree in Business Administration, Major in Accounting, Magna Cum Laude, from the University of Puerto Rico in 1987. He served as an instructor in various seminars sponsored by the firms he worked for, providing his expertise to the members of the Puerto Rico State Society of Certified Public Accountants and the Mortgage Bankers Association. He has been a member of the Puerto Rico State Society of Certified Public Accountants since 1990 and of the American Institute of Certified Public Accountants since 1998.

During his spare time, he dedicates his time to his family, his favorite sports, and helping develop new opportunities for the island's educational system. He volunteers his time to Sapiensis, a nonprofit organization that develops programs to stimulate change in the public education of Puerto Rico.

Today, Hernández leads a successful organization recognized as an entrepreneur's success story by the Ernst & Young's Entrepreneur of the Year award program. The firm has also earned the distinction of being recognized as one of Puerto Rico's Top 20 Best Employers. Scherrer Hernández & Co. provides audit, accounting, tax and business consulting services to the top businesses in the island, including those in industries such as, financial institutions, education, retail, real estate, construction and development, distribution, and individuals, among others.

## Process to obtain benefits

Most of the benefits listed in this work are tied to Act Number 73 of May 28, 2008, also known as the Economic Incentives Act for the Development of Puerto Rico.

You may start out by visiting [www.PRIDCO.com](http://www.PRIDCO.com) to download the law and the Application for a Tax decree. The PRIDCO site also offers a useful publication called Doing Business in Puerto Rico, which you may download from its site. We welcome you to be part of the economy of Puerto Rico, a great place to grow your business!

## Who to call for help

There are plenty of top legal, accounting, financial, and environmental firms on the island available to guide you. You may check the Puerto Rico Chamber of Commerce or feel free to contact us for recommendations.

## Other contacts

Cámara de Comercio de Puerto Rico  
[www.camarapr.org](http://www.camarapr.org)

Puerto Rico Manufacturers Association  
[www.prma.com](http://www.prma.com)

Oficina del Comisionado de Instituciones Financieras  
(Office of the Commissioner of Financial Institutions)  
[www.cif.gov.pr](http://www.cif.gov.pr)

## Disclaimers

This document is not intended as legal, tax, accounting or financial advice. We urge you to do your own due diligence and seek your own professional advice to determine if what Puerto Rico offers is suited to your venture.

Mr. Ferrer has provided his views relative to the benefits of considering Puerto Rico as a great business destination strictly as a private person and in no way these may be considered as views of his employer. The tax information provided was the contribution of CPA Gabriel Hernández, a leading professional in Puerto Rico.  
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## CREDIT

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A treasure chest is floating in the ocean. The sky is a mix of blue and orange, suggesting sunset or sunrise. There are clouds in the sky. A palm frond is visible in the top right corner. The text is overlaid on the image.

Dare to make the voyage that will take you to rediscover Puerto Rico.  
A world of opportunities  
for your business  
waiting for your decision.



