

Opportunity Zones Provide Investors Higher Returns

BY MARÍA DE LOS ANGELES RIVERA & FRANCISCO LUIS | Kevane Grant Thornton

The Opportunity Zones program was established in the United States as part of the Tax Cuts & Jobs Act of 2017. The legislation provides taxpayers subject to federal income tax favorable incentives related to capital gains on existing appreciated investments if all or part of the gains are converted into new investments in designated Opportunity Zones.

The U.S. Department of the Treasury has certified more than 8,700 areas as Opportunity Zones. In essence, they are designated low-income communities and include rural, suburban and urban areas. In Puerto Rico's case, the entire island (more than 95 percent of its geographical area) is practically an Opportunity Zone.

Puerto Rico has initiated legislative action to match the federal tax incentives. In

this manner, in November 2018, House Bill 1887 was filed as the "Act for the Development of Opportunity Zones & Economic Development of 2018." This legislation was an effort to provide tax incentives for activities that do not qualify for current tax incentive programs and the administration deems a priority for Puerto Rico's economic and social transformation.

In summary, HB 1887 will provide local tax incentives that give potential investors a

higher return on their investments to echo federal tax benefits. In addition, it also provides domestic taxpayers the opportunity to participate in Opportunity Zone projects to benefit from these incentives.

The incentives provided in the bill will be granted for 15 years in an exemption decree similar to other incentives in Puerto Rico.

In addition, the bill proposes an investment-tax credit up to a maximum 15 percent on the cash invested in the exempt business.

In addition, the legislation amends the Puerto Rico Internal Revenue Code of 2011 by introducing section 1031.06. This new section partially mirrors federal tax code sections that provide tax deferrals on capital gains that are reinvested in Opportunity Zone Funds.

Importantly enough, Act 22-2012 is also amended to allow new residents with grants under this act to defer the taxation by virtue of the new proposed section 1031.06 of the capital gains earned from securities that are attributable to the period of nonresidency in Puerto Rico.

In order to be able to attract mainland investors to the island and fund these projects, the benefits included in HB 1887 must materialize. Puerto Rico is competing with other states and jurisdictions to attract these investors, with the difference that our income tax rates are at the federal level and not at the state or local level. Therefore, time is of essence and HB 1887 needs to be approved quickly if Puerto Rico wants to compete with other states in the mainland that have enacted their own legislations to expand or match the federal tax incentives.



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INNOVATION

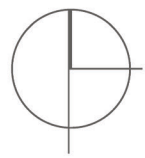


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