



By Maria de los Angeles Rivera,  
CPA  
*Tax Partner and IBC Director  
Kevane Grant Thornton*

## OPPORTUNITY ZONES: THE DISRUPTION PUERTO RICO NEEDS

**P**uerto Rico has, at this moment in time, the best recipe to attain sustainable economic growth. Growth that will be the foundation to position us better when evaluating our competitiveness with other jurisdictions in the world. To achieve this, all sectors, private, public and non for profits, need to align objectives, goals and strategies.

What are the ingredients for this recipe? The most important components are: a robust and tested industrial incentives program, the P3 legislation, the CBDGR funds that sooner or later we will be receiving as part of the recovery process after the 2017 storms and the US tax driven qualified opportunity zones program ("QOZ"). We must also add other ingredients such as our geographical location, our people and our connection to both US and Latin America, for example.

QOZs are designated low income levels sectors within a state and possessions. The purpose of the program is to incentivize investment on these areas through tax benefits to the investors: income tax deferral and exclusion of capital gains which are realized and in turn invested in businesses and projects in the QOZs. Around 8,700 zones were designated in total, of which 863 are in Puerto Rico. In order to conform to the federal legislation and provide additional incentives to increase the advantage of investing in the Puerto Rico QOZs, Act 21-2019 was signed last May 14, 2019. The provisions of Act 21, which were later incorporated into Act 60-2019, The Puerto Rico Incentives Code, provide local and foreign investors similar tax benefits in Puerto Rico in connection with the deferral and exclusion of certain capital gains if the property is in Puerto

Rico. In addition, it establishes a new incentive program for projects that are designated as priority projects and are not eligible for any other incentive program in Puerto Rico.

The supporters of the QOZs list several benefits of investing in the zones and these will be different depending on the role being played: investors, funds, developers and communities.

On the other hand, the critics of the program list several issues that may arise, including gentrification of the areas. The Merriam-Webster dictionary defines gentrification as "the process of repairing and rebuilding homes and businesses in a deteriorating area (such as an urban neighborhood) accompanied by an influx of middle-class or affluent people and that often results in the displacement of earlier, usually poorer residents". Although the goal of the program is to generate economic growth and development in the designated areas, this can lead to displacement if the income levels of the current residents are not increased because they won't be able to afford the new prices.

Therefore, close collaboration between all parties involved is vital. We are already seeing examples of developments in the US, where one of the requirements is to provide affordable housing to current residents while increasing their income levels and improving their neighborhood. They substitute the term gentrification for revitalization and refer to it as gentrification without displacement.

Our local recipe will attract investors looking for projects that will generate the benefits they are looking for. All sectors must work together in order to obtain the best results for them but, most importantly, for Puerto Rico and its people.