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Heading Puerto Rico legislature to pass bill to give opportunity zones legs on the island

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Main article **Puerto Rico's** legislature is expected to pass a bill this month to give opportunity zones legs on the island by lowering commonwealth tax rates on various businesses, said tax attorneys Manuel Lopez-Zambrana and Francisco Luis.

“Without this Puerto Rico doesn't have opportunity zone investment,” said Lopez-Zambrana, partner at DLA Piper, after a panel at the 2019 Puerto Rico Investment Summit in San Juan. “It's a priority of the legislature and the governor to pass this [House Bill 1877] in February.

As things now stand, the commonwealth's high corporate tax rates of 37.5% will leave investors to still pay taxes on income from opportunity zone placements, but the proposed legislation would reduce this rate to 20% for income from eligible activities including real estate, said Lopez-Zambrana.

With the proposed legislation, Puerto Rico stands to benefit greatly from opportunity zone investments as almost all the island qualifies for these federal tax incentives designed to foster economic development in distressed areas, said Lopez-Zambrana.

There will be big movement in opportunity zone investments in 2019 because it is the cutoff for getting maximum tax breaks under federal opportunity zone incentives, said Lopez-Zambrana and Luis, partner at Kevane Grant Thornton, after the panel.

“Time is running out. This is the year to get the maximum of these investments,” said Luis, who added the many states are passing local incentives to attract opportunity zone investment.

The proposed legislation also provides a host of other benefits to opportunity zone investors, according to a white paper by Kevane Grant Thornton.

These include tax-free distributions of earnings and profits generated from eligible activities; a 50% exemption on municipal license taxes and property taxes, which can increase to 90% if the project is home development, a 100% exemption on municipal construction excise taxes.

Interest income paid by the exempt business in connection with the financing obtained for eligible activities also will be totally exempt.

“Furthermore, HB 1887 proposes an investment tax credit of up to 15% of the cash invested in the exempt business, which can be subsequently ceded or sold to a third party. Moreover, the Bill assigns a priority to these credits among all other tax credits granted by other incentive acts in Puerto Rico,” states the white paper.

While there should not be any problem enacting the majority of what is included in the proposed legislation, Puerto Rico's Financial Oversight and Management Board could take issue with the proposed tax credits, Luis said.

by [Xavira Neggers Crescioni](#) in San Juan