

Tax Alert: Proposed incentives to medical professionals in Puerto Rico

Puerto Rico's economic and fiscal crisis has triggered the migration of residents at an accelerated and alarming rate. Many have felt compelled to leave the island in search of employment opportunities and a better quality of life. Chief among those departures are the island's medical professionals, whose continued exodus has generated into a public health crisis.

Mindful of the situation, on January 2, 2017 the House of Representatives proposed Bill No. 5 ("Bill 5"), as part of a series of legislative measures to reactivate the island's economy. Known as the *Incentives Act for the Retention and Return of Medical Specialists*, Bill 5 will establish preferential fixed income and dividend tax rates for a specific period of time.

Bill 5 sets for the incoming government's public policy to: (1) guarantee accessible and quality health services for all the residents of Puerto Rico; and (2) offer an attractive tax incentives proposal for the medical professionals to stay in Puerto Rico, and at the same time, attract the set up of other professionals' medical practice in Puerto Rico.

Tax incentives

Under the Bill 5, *qualified physicians* covered by a tax incentive decree, will benefit from the following:

- A 4% fixed income tax rate on *Eligible Income* generated in his/her medical practice, and

- An income tax exemption on the first \$250,000 of *Eligible Dividends*, including the alternative basic tax provided by the 2011 Internal Revenue Code for a New Puerto Rico (the "Code").

These incentives will be effective for a 15-year period, which can be renewed for an additional 15-year period.

Who is a qualified physician?

As part of the conditions for the concession of tax benefits, every eligible physician must provide one-hundred eighty hours (180) of community services without compensation. The services include the following:

- Assist as a professor in university hospitals;
- Offer medical services in areas where the Physicians Chapter of Puerto Rico ("CMPR", by its Spanish acronym) in conjunction with the Department of Health of Puerto Rico ("DSPR", by its Spanish acronym), determine there is a lack of specialized services;
- Provide medical wards in hospitals selected by both, the CMPR and DSPR;
- Offer seminars to the public community related to health problems prevention or for the training or continuing education courses required for students or medical professionals in Puerto Rico;



Contact us

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- Offer medical services which are part of a contract with the Health Plan of the Government of Puerto Rico, although paid.

Requirements for the concession of tax incentives

To enjoy the benefits under the tax decree, every physician must do a formal request to the Secretary of Economic Development and Commerce (the “Secretary”) through the Office of Industrial Tax Exemption (the “OITE”), and pay the corresponding filing fees. Once the request has been submitted, it will be evaluated by the OITE, as well as the DSPR and the Secretary of the Treasury.

According to Bill 5, the agencies consulted during the evaluation period, will have a twenty-day (20) term to submit their recommendations. If none are received, the application will be deemed as having a favorable recommendation from the consulted agencies.

The Secretary may reject any application whenever he determines that granting a decree would not be in the best economic and social interest of Puerto Rico. Nonetheless, the petitioner may request a reconsideration of the Secretary’s denial by filing the corresponding appeal.

Please be advised that as of the date of this publication, Bill 5 is still at the early stages of the legislative procedure, and no public hearings have taken place.

Note: As highlighted in our July 1, 2016 Tax Alert, the Puerto Rico Oversight, Management, and Economic Stability Act (PROMESA), seeks, among other things, to provide Puerto Rico with fiscal and economic discipline through the creation of a control board. Virtually every fiscal decision by the Government of Puerto Rico will be made or approved by the Oversight Board (the “Board”) created by PROMESA. On this

regard, the Board has authority to prevent the execution or enforcement of a contract, rule, executive order or regulation to the extent that it is inconsistent with the approved fiscal plan.

We will monitor the development of this proposal and keep you updated through our Tax Alerts.

Please contact our Tax Department should additional information is required regarding this or any other tax issue. We will be glad to assist you.

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