



Tax



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Amendment to Act 20-2012, The Export Services Act

September 18, 2018

On July 25, 2018, Act No. 20 of 2012 (“Act 20-2012”) was amended by Act 157 of 2018 (“Act 157-2018”) to extend its limited exemption on property taxes to other eligible service industries within Act 20.

Property Tax Exemption under Act 20-2012

As you are probably aware, Act 20-2012 seeks to position Puerto Rico as an international service centers encouraging local service providers to expand their offerings to markets outside of Puerto Rico and to persuade foreign service providers to establish operations in the Island, in exchange for a series of fiscal benefits for a 20-year term:

- fixed four percent (4%) income tax rate on qualified export service income
- sixty percent (60%) exemption on municipal license taxes
- one hundred percent (100%) exemption on distributions received by stockholders, partners or members of the exempt business

While the above referenced tax incentives are available to all export service companies qualified under Act 20-2012, Section 5(a)(i) grants a special ninety percent (90%) exemption on both personal and real property taxes to companies that perform any one of the following four (4) Eligible Export Services under Section 3(k) of Act 20-2012:

- creative industries [3(k)(v)];
- centralized management services [3(k)(viii)];
- call centers [3(k)(xii)]; and
- shared service centers [3(k)(xiii)].

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Moreover, pursuant to Section 5(a)(ii), the aforementioned businesses are totally exempt (i.e. 100%) from property taxes during their first five (5) of operations covered by Act 20-2012.

By means of Act 157-2018, the Puerto Rico Legislature amended Section 5(a)(i) of Act 20-2012 in order to extend the property tax exemption to:

- commercial distribution of products manufactured in PR for markets outside of PR [3(k)(xviii)]; and
- international trading companies [3(k)(xxi)].

This amendment was made effective immediately after its enactment.

Surprisingly enough, Act 157-2018 did not amend Section 5(a)(ii) – i.e. the legal disposition within Act 20-2012 that bestows the 100% exemption on property taxes during the first five years. As it currently reads, taking into consideration the amended language under Act 157-2018, it would suggest that only the initial four (4) eligible services will benefit from the 100% property tax exemption.

We will keep you apprised of any proposed or enacted technical amendment that resolves this treatment.

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



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