



Sales and Use Tax Considerations for Beneficiaries of Puerto Rico Tax Incentives

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Puerto Rico offers various tax exemption grants to eligible entities, providing significant tax advantages and growth opportunities. Knowing the Sales and Use Tax (“SUT”) implications for entities that are beneficiaries of tax exemption grants is crucial for effective planning, establishing goals, and strategies, as well as minimizing the impact on the organization's finances.

Our goal is to ensure you have a comprehensive understanding of these SUT considerations, enabling you to make informed decisions and fully capitalize on the available benefits. The following table outlines seven of the most common tax incentives available, detailing the areas in which SUT exemptions apply, as well as those subject to taxation, according to the Puerto Rico Internal Revenue Code of 2011, as amended (“PRIRC”), Act 60 of July 1, 2019, as amended, known as the Puerto Rico Incentives Code (“Act 60-2019”), and the SUT Regulations.

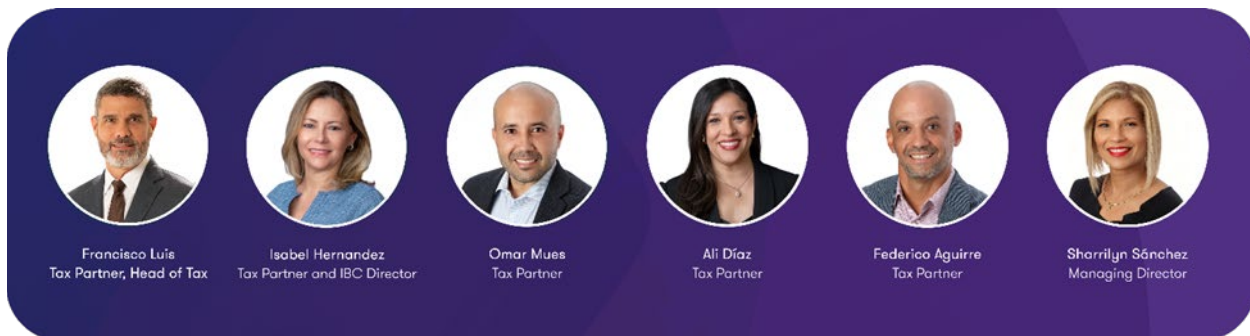
Incentives	Exempt from SUT	Subject to SUT
Agriculture (Bona Fide Farmers)	SUT Exemption on equipment acquired or imported to be used in the farming operation, such as: <ul style="list-style-type: none">- Incubators and breeding places for poultry or other animals;- Milkers;- Electric generators;- Equipment, devices, or objects that operate solely on solar, wind,	Sale of goods or services outside of their exempt farming activities.

	<p>hydraulic, or any other type of power;</p> <ul style="list-style-type: none"> - Herbicides, insecticides, pesticides, and fertilizers; - Among Others. <p>All services rendered to bona fide farmers:</p> <ul style="list-style-type: none"> - taxable services - business to business services (B2B) - designated professional services <p>Note: In order to be exempt, Bona Fide Farmers must be duly certified by the Department of Agriculture and must present a Certificate of Exempt Purchases and For Services Subject to the 4% Special-SUT (Form AS 2916.1)</p>	
Manufacturing	<p>SUT Exemption on the introduction or acquisition directly or indirectly of:</p> <ul style="list-style-type: none"> - Raw materials, including hydraulic cement; - Machinery, equipment, accessories, and spare parts to be used in the manufacturing process. <p>Services received from non-residents that are part of a controlled group or group of related entities.</p> <p>The final product, when exported, sold to the government, or sold to another manufacturing company.</p>	<p>Services received from local providers</p> <p>Sale of the final product to a reseller or a final consumer.</p>
Export of Goods & Services	<p>Exported services</p> <p>Services received from non-residents (auto-imposition)</p>	<p>Collects SUT on any local service provided (not exported)</p> <p>Pays SUT on local services received</p>

<p>Infrastructure and Green Energy</p>	<p>SUT and excise tax exemption on raw material used for the production of Green or Highly Efficient Energy, including:</p> <ul style="list-style-type: none"> - any product in its natural state derived from agriculture or the extractive industries (natural gas) - any sub-product, byproduct, unfinished or finished product (propane gas used for the generation of electric or thermal energy) <p>Machinery, equipment, parts and accessories used in the transportation of raw material within the exempted business circuit or used in carrying out the production of Green or Highly Efficient Energy that is required by federal or state law.</p> <p>Machinery and equipment that the exempt entity must use to comply with environmental, safety, and health demands.</p> <p>Chemicals used in the treatment of used water.</p> <p>Energy efficient equipment certified by the Department of Economic Development and Commerce of Puerto Rico (“DDEC”)</p> <p>Electrical substations</p> <p>Services received from a non-resident if it is part of the controlled group or part of the group of related entities.</p>	<p>The following materials are subject to SUT: Construction material or prefabricated buildings, electrical material and water pipes fixed into buildings, lubricants or oils not related to the production of energy, lamp posts and lights installed in the parking area, and water treatment plants.</p> <p>Service received from non-residents that are not part of the controlled group or group of related entities.</p>
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Visitor Economy (Tourism)	<p>SUT Exemption on articles acquired by the exempt business regarding the Tourism Activity covered under the grant.</p> <p>Articles acquired by a contractor or subcontractor to be used exclusively by an exempt business in construction projects related to the Tourism Activity of the exempt business.</p> <p>Note: Form AS 2916.1 is needed to support the exemption.</p>	<p>Services received unless they are provided by a member of the controlled group or related entities also operating in Puerto Rico.</p> <p>Articles or properties that are part of the grantee's inventory for sale in the ordinary course of business.</p> <p>Articles to be used in any area other than those dedicated to tourism activity (i.e., administration)</p>
Young Entrepreneurs (Entrepreneurship)	<p>No specific exemptions provided for SUT purposes</p> <p>Provides the following exemptions:</p> <ul style="list-style-type: none"> - Income Taxes - Personal Property Tax - Municipal Taxes 	<p>Property acquired</p> <p>Local services received</p> <p>Service received from non-residents</p>
Hospital Facilities	<p>SUT exemption on the purchase or lease of articles acquired for the exclusive use of the hospital facility, such as machinery, surgical-medical material, supplies, articles, equipment, and technology (software) used exclusively in the performance of health services in the process of diagnosis and treatment of conditions in human beings covered under the Act.</p>	<p>Machinery, construction materials, equipment, furniture, and office supplies used in whole or in part in the administrative or commercial phase, or to provide maintenance in the physical facilities of the hospital unit.</p>

As always, we are committed to helping you navigate Puerto Rico's tax environment and keep you up to date with all tax-related developments. Please contact our Tax Department for additional information on the incentives discussed above or any other available incentives. We will gladly assist you.



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