

OBJECTIVE

The export of services is an economic activity that has been identified as essential for the economic development and growth of Puerto Rico. Therefore, the Government of Puerto Rico has adopted as public policy to foster a service industry geared toward the export of all types of services. In order to do so, Act 20 is focused on encouraging local service providers, through the concession of tax exemptions, to expand their businesses by offering their services to clients outside of Puerto Rico.

ACT 20 TAX INCENTIVES

- **4%** Flat income tax rate on income related to such services (can be reduced to 3% if the services rendered are considered Strategic Services);
- **100%** Exemption on distributions from Earnings and Profits derived from the export services;
- **60%** Exemption on the volume of business tax;
- **90%** Exemption on personal and real property taxes (Only for Centralized management services, call centers and share services).

ELIGIBLE BUSINESS

To become exempt, the entity must be considered as an eligible business, which is described as an entity that provides export or promoter services from Puerto Rico, solely to customers outside Puerto Rico.

ELIGIBLE SERVICES

Eligible services include the following services, which are, in turn, considered services for export: (1) research and development, (2) professional services (such as legal, tax and accounting), (3) shared service centers, (4) advertising and public relations, (5) centralized management services, (6) storage and distribution centers, (7) consulting, (8) centers for electronic data processing, (9) educational and training services, (10) advice on matters relating to any trade of business, (11) development of computer programs, (12) hospitals and laboratory services, (13) commercial arts and graphic services, (14) telecommunication voice and data between persons located outside of Puerto Rico, (15) commercial distribution outside of Puerto Rico of products manufactured in Puerto Rico, (16) production of construction drawings, architectural and engineering services and project management, (17) call centers, (18) investment banking and other financial services, (19) trading companies, and (20) medical and laboratory Services (including medical tourism services and telemedicine facilities) or **any other service that the Secretary of the Treasury determines must be treated as an eligible service upon deeming it to be in the best interest of Puerto Rico.**

REQUIREMENTS

An eligible service shall be deemed a service for export when such service is rendered for the benefit of:

- An individual who is not a resident of Puerto Rico; or
- A trust whose beneficiaries, grantors, and trustees are not residents in Puerto Rico; or
- An estate whose testator, heir, legatee, or executor is not, or in the case of the testator, was a resident of Puerto Rico; or
- A foreign entity that has no nexus with Puerto Rico.

DECREE REQUEST

Entities that wish to request the benefits of Act 20 need to apply and obtain a tax exemption decree under the Act, which is granted by the Secretary of the Department of Economic Development and Commerce. The request has a one-time filing fee of \$750, and the decree will have a term of 20 years with a possible 10-year extension, regardless of changes in the law itself.