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NEW TAX INCENTIVES FOR MEDICAL PROFESSIONALS (PURSUANT TO ACT #14-2017)

Year 2017 Issue #1

I. Background

On February 21st, 2017, the Governor of Puerto Rico signed into law House Bill No. 5 known as the "Incentives Act for the Retention and Return of Medical Professionals", Act No. 14-2017 (the "Act"). The Act was established based on two principles of public policy: (i) to guarantee access to good quality health services for Puerto Rico residents, and (ii) to offer attractive tax incentives to the medical professionals in Puerto Rico; to retain the actual professionals practicing in Puerto Rico and to attract other professionals to establish their practices in Puerto Rico.

Tax Benefits

Any individual that request and obtain a Tax Exemption Grant (the "Grant") pursuant to the provisions of this Act will enjoy the following tax benefits:

- ⇒ **4% fixed income tax rate** on its Eligible Net Income generated from the rendering of professional medical services, as defined by the Act;
- ⇒ **100% exemption (including exemption from the Alternative Basic Tax) on up to \$250,000 received from Eligible Dividends** (dividends paid to a Qualified Physician by professional service companies or limited liability companies which provide services of diagnostics and treatment in Puerto Rico)
- ⇒ Qualified individuals may be eligible to contribute, after the payment of income taxes, up to a 25% of net income to individual retirement plans (Keogh) or up to 25% of their salaries in the case of corporate retirement plans.

Who may Qualify?

To apply for the benefits described above, the person must be a Qualified Physician as defined by the Act. A Qualified Physician may be: (i) a medical doctor; or (ii) a podiatrist; or (iii) a person with any specialty in orthodontics; or (iv) a medical doctor currently studying in a credited residence program.

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NEW TAX INCENTIVES FOR MEDICAL PROFESSIONALS (CONTINUED)

In addition, a Qualified Physician must comply with the following: (i) be a resident individual (as established by the Puerto Rico Internal Revenue Code); (ii) be engaged full time in rendering medical services (at least 100 hours per month); (iii) be in compliance with all its tax responsibilities; and (iv) provide at least 180 hours of community services.

In the case of nonresident individuals, they may request the benefits offered by the Act and, if approved, they have to transfer their medical practices to Puerto Rico within 120-days after the approval of the grant and become residents of the Island.

For purposes of the Act, "*community services*" may include, but is not limited to: (i) provide assistance in educational hospitals and schools of medicine in the education of students, resident professionals and any other health professionals; (ii) provide medical services to certain regions¹, (iii) provide medical services to hospitals which will be selected by the CPPR in conjunction with the PRDH; (iv) offer seminars to the public community related to preventive medicine or for the training and continuing educational courses required to students or medical professionals in PR; (v) offer medical services to disadvantaged communities through non for profit organizations in areas determined by the PRDH in conjunction with the CPPR.

Requirements for the Grant

A Qualified Physician interested in obtaining the benefits of the Act must submit a formal request to the Secretary of Economic Development and Commerce ("Secretary") through the Office of Industrial Tax Exemption ("OITE") and pay the applicable filing fees of \$1,000. The request will be evaluated by OITE, and by the Secretary of the PRDH and the Secretary of the Puerto Rico Treasury Department.

All Applicants **must file** their respective requests **within the first two (2) years** after the effective date of this Act. Any application filed after such date, will not be considered. Once approved, the benefits of the Grant will be available for a period of 15 years, with the possibility to be extended for another 15 years, for a total of 30 years under the benefits of the Act.

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¹Regions will be determined by the College of Physicians of Puerto Rico ("CPPR") in conjunction with the Puerto Rico Department of Health ("PRDH");



NEW TAX INCENTIVES FOR MEDICAL PROFESSIONALS

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Compliance Requirement and Responsibilities

A Qualified Physician covered by a Grant under the Act must be in compliance with the terms of the Grant as follows: (i) maintain its certification as Qualified Physician; (ii) practice the qualified services in a full-time basis; (iii) keep its residency within Puerto Rico; (iv) comply with any and all tax responsibilities; and (v) any other requirement established within the Grant.

Not complying with the Grant or with any other aspect established by the Act, may result in an automatic revocation of the benefits.

If the Grant is revoked, and it is not demonstrated that the noncompliance was due to reasonable cause; the Qualified Physician will be required to pay to the Puerto Rico Treasury Department an amount equal to all the unpaid taxes for its Eligible Income and Qualified Dividends for the prior three (3) years or the duration of the Grant, whichever is smaller. The payment must be remitted to the tax authority within the next 60 days after the effective date of the revocation.

Effective Date

The Act will be effective 60 days after its approval.

At RSM Puerto Rico we are ready to help you with these matters. If you have any questions or comments related to the content of this Tax Alert, please feel free to contact your Tax Advisor at RSM Puerto Rico.

Reminders & Due Dates

- March 10, 2017 – Monthly Declaration of Imports
- March 10, 2017 – Monthly Excise Tax Return
- March 10, 2017 – Deposit of Income Tax withheld on payments for services rendered
- March 15, 2017 – Deposit of Income Tax withheld on salaries of those employers classified as monthly depositors
- March 15, 2017 – Puerto Rico Informative Income Tax Return, Pass-Through Entity
- March 15, 2017 – U.S. Return of Partnership Income
- March 20, 2017 – Monthly Sales & Use Tax Return