

(H. B. 1367)  
(Conference)

(No. 52-2022)

(Approved June 30, 2022)

## AN ACT

To amend Sections 3, 5, and 5A, and add new Sections 3A and 13A to Act No. 135-1997, as amended, known as the “Tax Incentives Act of 1998”; amend Sections 5, 6, and add new Sections 3A and 13A to Act No. 73-2008, as amended, known as the “Economic Incentives Act for the Development of Puerto Rico”; amend Sections 1000.03, 1000.04, 1010.01, 1020.01, 2021.03, 2022.04, 2053.01, 2062.01, 2073.01, 3000.02, 3010.01, 3020.01, 3030.01, 3050.01, 5010.01, 6011.04, 6011.07, 6011.08, 6020.01, 6020.09, 6020.10, 6060.05, 6070.56, 6070.62, 6070.66, and add new Sections 2012.02, 2013.03, 6020.01A to Act No. 60-2019, as amended, known as the “Puerto Rico Incentives Code”; amend Section 2101 and 2106 of Act No. 120-1994, as amended, known as the “Puerto Rico Internal Revenue Code of 1994”; amend Sections 1010.01, 1010.03, 1021.06, 1022.03, 1035.03, reinstate Section 1035.08 of Act No. 1-2011, as amended, known as the Puerto Rico Internal Revenue Code for a New Puerto Rico” erroneously and unintentionally repealed by Act No. 60-2019, as amended, known as the “Puerto Rico Incentives Code,” 1040.08, 1051.01, 1051.04, 1051.05, 1051.06, 1051.07, 1051.09, 1051.10, 1051.12, 1061.15, 1061.20, 1061.23, 1061.25, 1062.01, 1062.07, 1070.01, 1071.10, 1091.01, 4010.01, 4020.03, 4042.03, 6030.10, 6030.11, 6051.02, 6051.15, and add a new Section 1051.16, a new Subchapter H to Chapter 7 of Subtitle A, including Sections 1078.01, 1078.02, 1078.03, and 6080.15, and a new Subchapter F to Chapter 5 of Subtitle F, including Section 6056.01 and 6056.02 of Act No. 1-2011, as amended, known as the “Puerto Rico Internal Revenue Code of 2011”; amend Sections 7.135 and 7.207 of Act No. 107-2020 “Municipal Code in order to conform the financial statement and reporting requirements to the Puerto Rico Internal Revenue Code of 2011; amend subsection (c) of Section 5 of Act No. 74-2010, as amended, known as the “Puerto Rico Tourism Development Act of 2010”; amend paragraph (6) subsection (c) of Section 7.3 of Act No. 27-2011, as amended, known as the “Puerto Rico Film Industry Economic Incentives Act”; amend paragraph (3) of subsection (a) of Section 2.11 of Act No. 83-2010, as amended; amend

subsection (b) of Section 11 of Act No. 178-2000, as amended, known as the “Special Act for the Creation of the Santurce Theater District”; amend subsection (e) of Section 4, 5 of Act No. 98-2001, as amended, known as the “Tax Credits for Investment in Housing Infrastructure Act”; amend subsection (a) of Section 1.8 of Act No. 140-2001, as amended, known as the “Tax Credits for Investment in Construction and Rehabilitation of Rental Housing for Low- or Moderate-Income Families and Tax Credits for Investments in the Acquisition, Construction, or Rehabilitation of Affordable Rental Housing for the Elderly Act”; amend subsection (l) of Section 17 of Act No. 183-2001, as amended, known as the “Puerto Rico Conservation Easement Act”; amend Section 11 of Act No. 75 of July 2, 1987, as amended, better known as the “Puerto Rico Notarial Act”; Section 21.03 of Act No. 164-2009, as amended, known as the “General Corporations Act for the Commonwealth of Puerto Rico”; and for other purposes.

### **STATEMENT OF MOTIVES**

Historically, different government administrations in Puerto Rico have launched comprehensive tax reforms seeking to establish new revenue collection mechanisms to enable the State to defray the services offered to the people. Between the 1940s and the 1950s, four tax reform models were implemented, to wit: personal property, income tax, excise tax, and tax exemption.

In 1975, a tax reform was implemented under the administration of Rafael Hernández Colón, which promoted the creation of Section 936 of the U.S. Internal Revenue Code. Tax reforms were also implemented in 1987 and 1994, which incorporated significant changes that allowed for the simplification and administration of the tax system, and for fighting tax evasion.

The macroeconomic and fiscal scenario in the early 2000’s worsened with the phase out of Section 936 of the U.S. Internal Revenue Code, which has caused a deep and long-standing economic recession in Puerto Rico. As a result, the Sales and Use Tax was approved in 2006 and the Puerto Rico Internal Revenue Code of 2011 was established and amended on several occasions to adjust its contents to the fiscal reality of the Island.

Precisely, in response to the challenges brought about by the financial crisis that the Island is undergoing, the government of Puerto Rico has enacted various tax laws seeking to stabilize public finances and increase the collection of revenues for the Treasury. One of said laws is Act No. 154-2010, which changed the manner in which the local government imposes taxes on entities organized outside of Puerto Rico that purchase products manufactured on the Island from a member or members of an affiliated group in our jurisdiction. By adopting a modified source of income rule (the “Modified Source of Income Rule”) and a temporary excise tax applicable when the gross receipts of the affiliate seller exceed \$75,000,000 (the “Excise Tax”), and that otherwise would not be subject to the Modified Source of Income Rule, we sought to achieve an equitable distribution of the tax burden, which has been fundamental for the economic development of Puerto Rico. We must also keep in mind that these multinational companies contribute directly with approximately \$1.730 billion in payment of wages in Puerto Rico, which represents over 36,000 jobs that generate an average salary of \$47,149 per person. For such reason, it is critical to keep these numbers and types of jobs, in addition to the indirect and induced multiplier effect of the economic activity.

Since their promulgation, the Modified Source of Income Rule and the Excise Tax have recently become one of the most important revenue collection measures for the Government of Puerto Rico, representing a substantial portion of government revenues. The Excise Tax was originally established as a temporary measure that would be gradually eliminated within six (6) years from the effective date of the law in 2010. However, since it became an important source of income for the Island, it was extended through December 31, 2027 under Act No. 3-2017. The new requirements established under Sections 901 and 903 of the U.S. Code (T. D. 9959; Final Regulations) disallow the Excise Tax and the income tax credit under the

Modified Source of Income Rule for federal income tax purposes as of January 1, 2023.

For such reason, this Legislative Assembly needs to establish a new statutory framework for companies that have been subject to the Act No. 154-2010 regime, which are vital for Puerto Rico's economy. To achieve this, the Government must allow these companies that have been, for decades, our partners in the economic development of Puerto Rico, to amend their existing tax exemption decrees to include a new income tax regime and extend such decrees for a period of fifteen (15) years. Under this option, no member of a decree holder's affiliated group shall be subject to the Modified Source of Income Rule or Excise Tax.

One factor that may have an impact on the transition from the current regime under Act No. 154 to a new tax structure are the potential changes at the federal level the so-called "GILTI" tax. Bearing this in mind, this Act has the necessary mechanisms to provide ample flexibility should this tax be imposed. Thus, Puerto Rico shall be able to effectively respond to these changes without losing its competitiveness as an ideal place for investment and business.

Consistent with the foregoing, in order to continue doing justice to Puerto Rican workers, this Act introduces the concept of disregarded entities into our tax system. At the federal level, entities classified as single-member Limited Liability Companies are considered disregarded entities. For tax purposes, disregarded entities do not pay taxes, instead their owners do so in their self-employed income tax returns. At present, this option is not available under the Puerto Rico Internal Revenue Code, because it does not recognize the disregarded entity concept. This lack of recognition places a burden on the Island's working class, which chooses not to enjoy the protections of a Limited Liability Company, and in turn, continue to be taxed as an individual. By recognizing them in our jurisdiction, the working class taxes are simplified, thereby doing justice to the working class, which bears the most

tax burden on the Island. In addition, incorporating the disregarded entity concept places the Island on a par with all other states. We thus correct a technical error that caused unequal treatment to controlled groups of corporations and raised the costs of compliance for both the Department of the Treasury and small- and medium sized businesspeople who tend to organize their business under the limited liability company business structure.

As part of the changes to the tax system contained in this Act, we cannot leave out the reconstruction process led by the Government of Puerto Rico after hurricane María. As a result of this severe weather event, reconstruction works have been carried out across the Island. According to the Federal Emergency Management Agency (FEMA) report of January 20, 2022, over 9,100 projects have been obligated to the Commonwealth of Puerto Rico; this represents over \$25.9 billion in federal funds for Puerto Rico's recovery. According to the report, some projects have already been completed while others are in the bidding and procurement stages.

In September 2018, the Puerto Rico Certified Public Accountants Foundation published a study entitled: "Puerto Rico: A development Roadmap." The study stresses the lack of Puerto Rican contractors participating in federally-funded projects. According to the study: "Data on federal fund contracting in Puerto Rico shows that barely 13% of contractors are local. The remaining 87% is direct contracting with companies outside of Puerto Rico." [Our translation].

Therefore, Puerto Rican contractors and their staff must receive the necessary training to increase their participation in projects funded by the Federal Government. The study also states that, on occasion, our institutions lack the capacity to manage federal funds. This Bill seeks not only to increase Puerto Ricans participation in federally-funded works and projects, but also to counter the mismanagement of public funds by training beforehand those who manage such funds.

The tax policy should not be based solely on revenue collection, it must also generate economic development. The tax universe is composed of the following elements: (1) rules and regulations that interpret the tax policy; (2) laws that grant tax incentives or benefits; and (3) oversight mechanisms. These elements are indivisible and interrelated. For such reason, each one of these elements must be considered jointly when working with a country's tax system in order to address all areas of interest that may affect their interpretation.

Tax incentives or benefits laws must include oversight mechanisms. Said mechanisms are systems that are established to validate and verify the information provided by taxpayers, and determine whether the funds allocated by the government are being used responsibly and for the purpose for which they were intended. The foregoing shall ensure compliance with the tax policy and allow the State to meet its responsibility to society.

Act No. 187-2015, better known as the "Interagency Validation Portal for the Granting of Incentives for the Economic Development of Puerto Rico Act," established a modern and efficient communications system between the government agencies charged with overseeing and granting of types of tax incentives. Act No. 60-2019, better known as the "Puerto Rico Incentives Code" compiled a large portion of the provisions of Act No. 187-2015 and established a new centralized mechanism under the Department of Economic Development and Commerce. However, no oversight areas were adopted under Act No. 60-2019, because they had been already established in Act No. 187-2015 and facilitated information transparency, ongoing oversight, and adequate observance of the conditions of granted decrees.

We may unequivocally state that a vigorous economy is essential to overcome our bankruptcy. It is also critical for the State to become a facilitator of commercial activity, which shall create, in turn, more and better jobs. However, being a

facilitator does not mean that the Government shall abandon its duty to ensure that the incentives granted are generating the expected benefits. Therefore, it is necessary to establish the “Certificate of Compliance” as the document issued by a Compliance Professional every two years upon verifying that the incentivized business is meeting the conditions of the decree. Furthermore, this Bill also reinforces the governing principles of the Act, to wit: job creation; sound integration; commitment to economic, financial, and agricultural activity; and transfer of knowledge for the purpose of safeguarding them at the time of granting and overseeing such decrees.

Moreover, this Acts seeks to establish a system to measure the effectiveness of the incentives and benefits granted as well as oversee compliance with the terms and conditions agreed to by the beneficiaries. The Certificate of Compliance, the Compliance Professional, and decree report sharing shall be crucial at the time of operating the State’s resource and planning those areas that we wish to incentivize in the future to improve the quality of life of our people. These changes shall spearhead Puerto Rico’s sustainable development in the 21<sup>st</sup> century in a responsible and orderly manner and ensure a social, economic, and environmental balance.

For all of the above, it is necessary for this Legislative Assembly to approve these significant, necessary, and essential changes to our tax system in order to promote the creation of a Puerto Rico that is capable of capitalizing on all of the resources it has available and paving the way to progress for future generations.

***BE IT ENACTED BY THE LEGISLATIVE ASSEMBLY OF PUERTO RICO:***

Section 1.- This Act shall be known as the “Puerto Rico Public Finances Stability Act.”

Section 2.- Subsection (b) of Section 3 of Act No. 135-1997, as amended, known as the “Tax Incentives Act of 1998,” is hereby amended to read as follows:

“Section 3.- Fixed Tax Rate on Industrial Development Income.

(a) Fixed tax rate. -... .

## (b) Credit for stockholders who are individuals. -

Stockholders or partners of exempt businesses holding a decree granted under this Act who are individuals shall be entitled to a credit against the income tax imposed under Act No. 120 of October, 31, 1994, as amended, known as the Puerto Rico Internal Revenue Code equal to thirty percent (30%) of their proportional share in the fixed tax rate on industrial development income paid by the exempt business under this Section. Any credit not used in a taxable year by stockholders or partners who are individuals may be carried over to subsequent taxable years, until said credit is exhausted, subject to the provisions of subsection (h) of Section 1051.16 of the Puerto Rico Internal Revenue Code, if applicable.”

Section 3.- A new Section 3A is hereby added to Act No. 135-1997, as amended, known as “Tax Incentives Act of 1998,” to read as follows:

## “Section 3A. - Alternate Fixed Tax Rate on Industrial Development Income.

## (a)(1) General Fixed Income Tax Rate. -

(A) Exempt businesses under this Act that elect to be taxed under this Section shall be subject to a ten and a half percent (10.5%) income tax rate on their industrial development income from the sale of products or services, in lieu of any other tax, if any, imposed by law. Absent a provision to the contrary, such tax shall be paid in the form and manner provided by the Puerto Rico Internal Revenue Code of 2011, Act No. 1-2011, as amended, or any subsequent general income tax law. As of the effective date determined for an election under this Section, no member of a controlled group of the exempt business, as defined in Section 1123(h)(3) of the Puerto Rico Internal Revenue Code, that elected to be taxed pursuant to the provisions of this Section shall be subject to the rules of Section 1123(f)(4)(B), or Sections 2101 through 2106 of the Puerto Rico Internal Revenue Code, as amended, any successor or similar provision of the Puerto Rico Internal Revenue Code of 2011, as amended, or any substitute or successor provision. An

election under this Section shall be submitted by the exempt business to the Secretary of the Department of Economic Development and Commerce in the form of an application for amendment of a decree issued to the exempt business. The Secretary of the Department of Economic Development and Commerce may authorize an amendment of decree to include an election to be taxed under this Section, provided, that the Secretary of the Treasury and the Director of the Incentives Office for Businesses in Puerto Rico, determine that such election shall be in the best economic and social interests of Puerto Rico. To determine what constitutes the best economic and social interests of Puerto Rico, factors such as the following shall be analyzed: the nature of the exempt business under this Act, the technology used, the substantial employment that the same provides, location of the exempt business, potential impact of hiring local suppliers, the convenience of having local supplies of the product or any other benefit or factor that warrants such determination. Decrees amended to benefit from the provisions of this Section 3A may be extended for an additional period of fifteen (15) years beginning on the day following the expiration date of the terms set forth in the decrees. Upon expiration of the term of a decree issued under this Section, an exempt business may not extend or renegotiate its decree under this Act but may apply for a decree pursuant to the provisions of Act No. 60-2019, known as the Puerto Rico Incentives Code and shall be subject to the income tax rates established in Section 2062.01(a)(3) and (b)(4) of Act No. 60-2019. For the purposes of Section 1123(f)(4)(B) and Sections 2101 through 2106 of the Puerto Rico Internal Revenue Code, or any substitute or successor statute, an election under this Section that is approved by the Secretary of the Department of Economic Development and Commerce and accepted by the exempt business shall be binding on all members of a controlled group of the exempt business, as defined in Section 1123(h)(3) of the Puerto Rico Internal Revenue Code, and the Secretary of the Treasury.

(B) If the United States of America amends the provisions of Section 250(a)(3), Section 11(b), Section 951A, or any other Section of the United States Internal Revenue Code of 1986, as amended, (including any successor provisions thereof) and, as a result of any such amendment(s), an entity that is subject to income tax as a corporation under the United States Internal Revenue Code of 1986, as amended, is imposed an income tax of at least fifteen percent (15%) on all or part of the income of a controlled foreign corporation, as such term is defined in the United States Internal Revenue Code of 1986, as amended (including any successor provisions thereof), then,

i. Beginning the first taxable year of the exempt business that coincides with the first taxable year for which the amendments to the United States Internal Revenue Code of 1986, as amended, become effective and for all subsequent taxable years, a fifteen percent (15%) rate shall apply, in lieu of the ten and a half percent (10.5%) rate established in subparagraph (A) of this paragraph (1), and

ii. Beginning the first taxable year of the exempt business that coincides with the first taxable year for which the amendments to the United States Internal Revenue Code of 1986, become effective and for all subsequent taxable years, an exempt business whose average industrial development income for the three preceding (3) taxable years is less than six hundred million dollars (\$600,000,000), and conducts manufacturing operations covered by the decree in at least four municipalities of Puerto Rico as of June 30, 2022, the exemption established in subparagraph (A) of Section 3A(a)(2) shall be seventy percent (70%), for each taxable year in which the average industrial development income for the three-year period preceding said taxable year, determined without considering the exemption provided in said section is greater than twenty percent (20%) of the average taxable purchases of the controlled group that would have been

subject to excise tax under Section 2101 of the Internal Revenue Code of 1994, as amended.

(C) Both the ten and a half percent (10.5%) rate established in subparagraph (A) of this paragraph (1) and the fifteen percent (15%) rate established in subparagraph (B) of this paragraph (1), shall be imposed regardless of whether (a) the exempt business is a controlled foreign corporation, (b) the exempt business is directly or indirectly controlled by persons that are United States persons, as such term is defined in the United States Internal Revenue Code of 1986, as amended, (c) all or any portion of the industrial development income of the exempt business is not subject to the tax imposed by the United States Internal Revenue Code of 1986, as amended, or the laws of any foreign country, and (d) the industrial development income of the exempt business, or any portion thereof, is not required to be recognized as income by any other person for purposes of the United States Internal Revenue Code of 1986, as amended, or the laws of any foreign country.

(D) Both ten and a half percent (10.5%) rate established in subparagraph (A) of this paragraph (1) and the fifteen percent (15%) rate established in subparagraph (B) of this paragraph (1), shall be imposed regardless of whether the tax paid in Puerto Rico, or any portion thereof, under subparagraph (A) or (B) of this paragraph (1) can be credited or not in the United States of America or a foreign country.

The Secretary of the Treasury may establish guidelines as are necessary under this subparagraph through regulation, administrative determination, circular letter, or general information bulletin.

(2) Special Industrial Development Income Exemption. - Notwithstanding other provisions of law, or any other provision of this Act, exempt businesses that elect to be taxed under paragraph (1) of this section, shall enjoy one

of the following special industrial development income exemptions for the taxable year, as applicable, and subject to the following terms and conditions:

(A) Except as provided in subparagraphs (B), (C), and (D), twenty percent (20%) of the industrial development income of every exempt business with an average employment of one thousand (1,000) or more direct employees, and that also generated industrial development income of three hundred million dollars (\$300,000,000) or more for the immediately preceding taxable year, shall be exempt from the payment of income taxes. However, if the exempt business is subject to the fifteen percent (15%) rate established in subparagraph (B) of paragraph (1) of this subsection, it shall be eligible for the exemption provided in this subparagraph with an average employment of one hundred (100) or more direct employees, in lieu of one thousand (1,000) or more direct employees.

(B) Except as provided in subparagraphs (C) and (D), sixty-seven percent (67%) of the industrial development income of every exempt business, with an average employment of one thousand (1,000) or more direct employees, and that also generated industrial development income of two billion five hundred million dollars (\$2,500,000,000) or more for the immediately preceding taxable year shall be exempt from the payment of income taxes.

(C) Except as provided in subparagraph (D), seventy-five percent (75%) of the industrial development income of every exempt business with an average employment of one thousand (1,000) or more direct employees, and that also generated industrial development income equal to or greater than seven billion five hundred million dollars (\$7,500,000,000) for the immediately preceding taxable year, shall be exempt from the payment of income taxes.

(D) Eighty-five percent (85%) of the industrial development income of every exempt business, with an average employment of four thousand (4,000) or more direct employees, and which payments subject to the income tax set

forth in paragraph (3) of this section for the immediately preceding taxable year were equal to, or greater than, ninety percent (90%) of their industrial development income, shall be exempt from the payment of income taxes.

None of the above provisions shall be construed as allowing an exempt business to enjoy more than one of the special exemptions established in subparagraphs (A), (B), (C), or (D) of this paragraph (2), as the case may be, for a taxable year. The determination of whether for a taxable year an exempt business meets the requirements of subparagraphs (A), (B), (C), or (D) of this paragraph (2) to enjoy the special exemption on industrial development income established in the applicable subparagraph, as the case may be, shall be made regardless of any adjustment, assignment or imputation of income, deductions, credits or concessions that the U.S. Internal Revenue Service may undertake after the taxable year under Section 482 of the United States Internal Revenue Code of 1986, Title 26 of the United States Code, as amended, or by any foreign country under similar or equivalent provisions, and that affects the industrial development income of the exempt business for said taxable year.

(3) Royalties, Rents and License Rights Under an Alternate Tax Rate Election. – Notwithstanding any other provision of law or this Section 3A, in the case of payments by an exempt business holding a decree issued under this Act and that has availed itself of the provisions of this Section 3A, to corporations, partnerships or nonresident persons, not engaged in a trade or business in Puerto Rico, for the use, or right to use patents, copyrights, formulas, technical know-how and other similar property in Puerto Rico in connection with operations declared exempt under this Act, and subject to such payments being totally considered from sources within Puerto Rico, there shall be imposed and collected and such payments shall be subject to a twelve percent (12%) tax, in lieu of any other tax, if any, imposed by law, subject to the terms of its tax exemption decree. However, thirty-seven and

a half percent (37.5%) of these payments for the use or right to use patents, copyrights, formulas, technical know-how and other similar property in Puerto Rico in connection with operations declared exempt under this Act, shall be exempt from income tax, if the exempt business making such payments had an average employment of one hundred (100) or more direct employees, except for exempt business that enjoy the exemption provided in subparagraphs (A) and (D) of Section 3A(a)(2) of this Act, which may not claim the thirty-seven and a half percent (37.5%) exemption set forth in this paragraph (3). Payments for the use, or the right to use patents, copyrights, formulas, technical know-how, and other similar property in Puerto Rico in connection with operations declared exempt under this Act; and subject to such payments being totally considered from sources within Puerto Rico, made by exempt businesses enjoying the exemption provided in subparagraph (D) of Section 3A(a)(2) of this Act, shall be subject to a thirteen percent (13%) tax, in lieu of any other tax, if any, imposed by law, subject to the terms of its tax exemption decree. Beginning the taxable year in which the payments subject to income tax provided in paragraph (3) of this subsection (a) made by exempt businesses enjoying the exemption provided in subparagraph (D) of Section 3A(a)(2) of this Act, increased by at least ten percent (10%) in comparison to the average paid in the taxable year for payments subject to the income tax provided in paragraph (3) of this subsection (a), or paid under any prior similar provision, for the three taxable years immediately preceding the first taxable year subject to this section, and subsequent years, the payments for the use, or the right to use patents, copyrights, formulas, technical know-how, and other similar property in Puerto Rico in connection with operations declared exempt under this Act, and subject to such payments being totally considered from sources within Puerto Rico, made by exempt businesses enjoying the exemption provided in subparagraph (D) of Section 3A(a)(2) of this Act, shall be subject to a twelve percent (12%) tax, in lieu of any other tax, if any,

imposed by law, subject to the terms of its tax exemption decree. The exempt business making such payment shall deduct and withhold such tax and shall report and remit it to the Secretary of the Treasury in accordance with the Puerto Rico Internal Revenue Code or its successor law, as the case may be. The credit provided under Section 5(c) of this Act, as amended, may not be applied to payments subject to the tax established in this paragraph (3) or against the income tax established in Section 3A of this Act.

(b) Definitions. - For the purposes of this Section 3A, the term 'direct employee' means every individual resident of Puerto Rico hired by the exempt business, on a full-time, part-time, or temporary basis, to directly participate in activities covered by the decree, including employees of other employers or other persons that have been assigned or leased to the exempt business; provided, that such assigned or leased employees are not counted by their employers or other persons to meet the employment requirement under a decree, in accordance with the terms of the exempt business' decree and as annually reported by the exempt business to the Incentives Office in the annual report required by Section 6020.10 of Act No. 60-2019 and/or any other information return required by the Secretary of the Treasury. For the purposes of determining the number of direct full-time employees maintained by the exempt business during the taxable year, the sum of the total hours worked by all of the direct employees of the exempt business during the taxable year and the resulting amount shall be divided by two thousand eighty (2,080). The result, without considering decimals, shall be the number of direct employees during said taxable year. For these purposes, vacation or other authorized leaves may be considered as hours worked. However, overtime in excess of 40 hours per workweek, shall not be considered. To determine the average direct jobs, the exempt business shall add the total number of direct employees in each quarter of the taxable year immediately preceding the taxable year by the sum of the total number of

quarters for the immediately preceding taxable year. In the case of exempt businesses that are members of a controlled group under Section 1010.04 of the Puerto Rico Internal Revenue Code, the average number of direct employees and the number of direct jobs created shall be determined considering the aggregate number of direct employees of all the members of the controlled group that are exempt businesses, and for purposes of subparagraphs (A), (B), (C), and (D) of paragraph (2) of subsection (a) of this section, as the case may be, the industrial development income of the exempt business, and the amount of payments subject to the income tax set forth in paragraph (3) of subsection (a) of this section of the exempt business, shall be determined considering the aggregate industrial development income and the aggregate payments subject to the income tax set forth in paragraph (3) of subsection (a) of this section, of all the members of the controlled group that are exempt businesses. Partnerships shall be considered as corporations under Section 1010.04 of the Puerto Rico Internal Revenue Code to determine whether they are members of the same controlled group for purposes of this Section 3A.

(c) Other Rules. – Except as provided in paragraph (3) of subsection (a) of this section, it shall be understood that any reference to the provisions of Section 3 in any other section of this Act shall also refer to the applicable or similar provisions of this Section 3A; provided, that the provisions of Section 3A apply to such other section, including but not limited to Sections 4, 5(a), 5(b), and 5-A of this Act, the result of which shall be the application of the tax deductions and credits set forth in Sections 4, 5(a), 5(b) and 5-A of this Act against the industrial development income subject to the rate established in this Section 3A, subject to the limitations established in subsection (d) of this Section. For purposes of this Section 3A, the term ‘decree’ means a decree issued under this Act, a decree renegotiated under this Act, a decree extended under to this Act or a degree converted under this Act. In addition, any transaction or series of transactions the main purpose of which is to

avoid this section, including, but not limited to, the organization or use of corporations, partnerships, or other entities, the use of shareholder representative agreements (including facilitation agreements), or the use of any other plan or agreement shall be rendered ineffective, and the use of charges for personal property and services other than charges that would arise between uncontrolled persons operating at arm's length shall also be rendered ineffective.

(d) Application of Credits and Minimum Tax – The application of the tax credits established in subsections (a) and (b) of Section 5 and Section 5A of this Act, shall be subject to the following rules:

(1) Tentative Tax. – Initially, the exempt business shall compute its tax obligation in accordance with the provisions of subsection (a) of this Section, without considering the credit established in subsections (a) and (b) of Section 5 and Section 5A of this Act.

(2) Application of Credits. – The total sum of the tax credits granted under subsections (a) and (b) of Section 5 and Section 5A of this Act, as applicable to each one of these, and subject to the limitations applicable to each one of them claimed by the exempt business shall be reduced from the tax obligation computed under paragraph (1) of this subsection (d).

(3) Minimum Tax. – The result of the determined tax on industrial development income computed after applying the credits in accordance with paragraph (2) of this subsection (d) cannot be less than the amount computed in paragraph (1) of this subsection (d).

(4) An exempt business holding a decree granted under this Section 3A shall pay whichever amount is higher between paragraph (2) or paragraph (3) of this subsection (b).

(5) Every exempt business holding a decree granted under this Act, and claiming special deductions and tax credits under any other incentives law, shall

be subject to the provisions of this subsection (d), and may not claim any similar credits provided under this Act.”

Section 4.- Subsection (b) of Section 5 of Act No. 135-1997, as amended, known as the “Tax Incentives Act of 1998” is hereby amended to read as follows:

(a) ...

(b) Credit for the Purchase of Products Manufactured in Puerto Rico. If an exempt business holding a decree granted under this Act or under prior incentives laws, purchases products manufactured in Puerto Rico, including components and accessories, it may take a credit against the fixed tax rate on industrial development income provided in Section 3 of this Act, equal to twenty-five (25) percent of the purchase price of said products during the taxable year in which said credit is taken, reduced by the average of the purchase price of said products for the three (3) preceding taxable years, or that portion of said period that is applicable, up to a maximum of twenty-five (25) percent of said tax; this credit shall be granted solely for the purchase of products that have been manufactured by businesses not related to the exempt business and, for the purposes of the above calculation, said purchases shall be excluded from the total purchases of products manufactured in Puerto Rico by the exempt business.

If an exempt business holding a decree granted under this Act, purchases products transformed into commercial articles made from recycled materials or with raw materials from materials recycled by exempt businesses that have been granted a tax exemption decree under paragraph (24) of subsection (e) of Section 2 of this Act or prior laws, the credit granted herein shall be equal to thirty-five (35) percent of the total purchases of said products during the taxable year for which the credit is claimed.

The credit provided in this subsection that is not used by the exempt business may be carried over to subsequent taxable years, until said credit is exhausted subject to the provisions of subsection (h) of Section 1051.16 of the Puerto Rico Internal Revenue Code, if applicable.”

Provided, that in the case of businesses exempted under prior laws that have availed themselves of the renegotiation benefits provided in subsection (a) of Section 8 of this Act, the credit provided in this subsection shall be prorated between the base period income described in said subsection (a) of Section 8, and the incremental industrial development income, excluding the income derived from the investments described in subsection (j) of Section 2 of this Act. Both incomes shall be computed under the statutory provisions applicable to each one of them pursuant to Section 8 of this Act. In the case of the base period income, the credit provided herein may only be claimed during the remainder of the exemption period of the decree in effect as of the date of the application for renegotiation. The credit attributable to the base period income may only be used against the tax on distributions of industrial development dividends or profits of the exempt business imposed under Act No. 8 of January 24, 1987, as amended, under Act No. 26 of June 2, 1978, as amended, or under the ‘Puerto Rico Internal Revenue Code,’ as applicable. The credit attributable to incremental industrial development income may be used as a credit against the fixed industrial development income tax rate provided in subsection (a) of Section 3 of this Act, as provided, and subject to the limitations of this subsection.

For taxable years beginning after December 31, 2021, every exempt business interested in claiming a tax credit under the provisions of this Section shall comply with the provisions of Sections 3020.01(a)(3) and 6030.01 of Act No. 60-2019.”

Section 5.- Subsections (a) and (c) of Section 5A of Act No. 135-1997, as amended, known as the “Tax Incentives Act of 1998,” are hereby amended to read as follows:

“Section 5-A.- Industrial Investment Credit

(a) General Rule. - Subject to the provisions of subsection (b), every investor may claim an industrial investment credit equal to fifty percent (50%) of his eligible investment made after the approval of this Act, to be taken in two (2) installments: the first half of said credit on the year in which the eligible investment is made and the credit balance in the following years. Every eligible investment made before the deadline for filing the income tax return, as provided in Act No. 120 of October 31, 1994, as amended, known as the ‘Puerto Rico Internal Revenue Code,’ including any extension granted by the Secretary of the Department of the Treasury for filing the same, shall qualify for the tax credit under this Section in the taxable year for which the aforementioned tax return is being filed; provided, that it meets all the requirements of this Section. Said industrial investment credit may be applied against any tax of the investor determined under Act No. 120 of October 31, 1994, as amended, known as the ‘Puerto Rico Internal Revenue Code,’ including the alternative minimum tax of Section 1017 and the alternative tax on individuals of Section 1011(b) of the ‘Puerto Rico Internal Revenue Code.’

...

(c) Credit Carryover.- Every industrial development credit that is not used in a taxable year may be carried over to subsequent taxable years until it is exhausted subject to the provisions of subsection (h) of Section 1051.16 of the Internal Revenue Code, if applicable.”

(d) ...”

Section 6.- A new Section 13A is hereby added to Act No. 135-1997, as amended, known as the “Tax Incentives Act of 1998,” to read as follows:

“Section 13A. Interagency Consideration of Application for Amendment Pursuant to Section 3A. – Once the Incentives Office for Businesses in Puerto Rico or the successor thereof receives an application for amendment of decree under Section 3A of this Act, its Director shall notify the Secretary of the Treasury with a copy of the application for amendment of decree within five (5) days from the filing date thereof. When evaluating an application for amendment of decree, the Secretary of the Treasury shall, among other matters, verify compliance of the shareholders or partners of the exempt business with their tax obligations under the Puerto Rico Internal Revenue Code of 2011, as amended. This evaluation shall not be necessary in the case of Puerto Rico non-resident shareholders or public corporations, unless such non-resident shareholders or public corporations were, or are, a member of a ‘controlled group’ of the exempt business, as defined in Section 1123(h)(3) of the Puerto Rico Internal Revenue Code, and were, or are, subject to the rules of Section 1123(f)(4)(B) or Sections 2101 through 2106 of the Puerto Rico Internal Revenue Code, as amended, any substitute provision. The Secretary of the Treasury shall not endorse an application for amendment of decree if said tax liabilities are not met. The Director of the Incentives Office for Businesses in Puerto Rico shall issue an eligibility and recommendation report on the application for amendment of decree and notify the Secretary of the Treasury with a draft amendment of decree for the Secretary’s evaluation and recommendation. Any unfavorable recommendation on the draft amendment of decree shall state the reasons therefor. The Secretary of the Treasury shall file a report or recommendation on the draft amendment of decree within ten (10) days. If the Secretary of the Treasury issues a favorable report or recommendation, or if the Incentives Office for Businesses in Puerto Rico or the successor thereof, does not receive a report or recommendation within the aforementioned ten (10)-day period, the draft amendment of decree shall be deemed to have received a favorable recommendation of the Secretary of the Treasury, and

the Secretary of the Department of Economic Development and Commerce of Puerto Rico shall make a final determination in writing on the application for amendment.”

Section 7.- A new Section 3A is hereby added to Act No. 73-2008, as amended, known as the “Economic Incentives Act for the Development of Puerto Rico,” to read as follows:

“Section 3A.- Alternative Fixed Tax Rate on Industrial Development Income.

(a)(1) General Fixed Income Tax Rate. -

(A) Exempt businesses under this Act that elect to be taxed under this Section shall be subject to a ten and a half percent (10.5%) income tax rate on their industrial development income from sales of products or services, in lieu of any other tax, if any, imposed by law. Absent a provision to the contrary, such tax shall be paid in the form and manner provided by the Puerto Rico Internal Revenue Code of 2011, Act No. 1-2011, as amended, or any subsequent general income tax law. As of the effective date determined for an election under this Section, no member of a controlled group of the exempt business, as defined in Section 1123(h)(3) of the Puerto Rico Internal Revenue Code of 1994, as amended, that elected to be taxed pursuant to the provisions of this Section shall be subject to the rules of Section 1123(f)(4)(B), or Sections 2101 through 2106 of the Puerto Rico Internal Revenue Code, as amended, any successor or similar provision of the Puerto Rico Internal Revenue Code of 2011, as amended, or any substitute or successor provision. An election under this Section shall be submitted by the exempt business to the Secretary of the Department of Economic Development and Commerce in the form of an application for amendment of a decree issued to the exempt business. The Secretary of the Department of Economic Development and Commerce may authorize an amendment of decree to include an election to be taxed under this Section; provided, that the Secretary of the Treasury and the Secretary of the Department of Economic Development and Commerce, determine that such election

shall be in the best economic and social interests of Puerto Rico. To determine what constitutes the best economic and social interests of Puerto Rico, factors such as the following shall be analyzed: the nature of the exempt business under this Act, the technology used, the substantial employment that the same provides, location of the exempt business, potential impact of hiring local suppliers, the convenience of having local supplies of the product or any other benefit or factor that warrants such determination. Decrees amended to benefit from the provisions of this Section 3A may be extended for an additional period of fifteen (15)-years beginning on the day following the expiration date of the terms set forth in the decrees. Upon expiration of the term of a decree issued under this Section, an exempt business may not extend or renegotiate its decree under this Act but may apply for a decree pursuant to the provisions of Act No. 60-2019, known as the Puerto Rico Incentives Code and shall be subject to the income tax rates established in Section 2062.01(a)(3) and (b)(4) of Act No. 60-2019. For the purposes of Section 1123(f)(4)(B) and Sections 2101 through 2106 of the Puerto Rico Internal Revenue Code of 1994, or any substitute or successor statute, an election under this Section that is approved by the Secretary of the Department of Economic Development and Commerce and accepted by the exempt business shall be binding on all members of a controlled group of the exempt business, as defined in Section 1123(h)(3) of the Puerto Rico Internal Revenue Code of 1994, and the Secretary of the Treasury.

(B) If the United States of America amends the provisions of Section 250(a)(3), Section 11(b), Section 951A, or any other Section of the United States Internal Revenue Code of 1986, as amended, (including any successor provisions thereof) and, as a result of any such amendment(s), an entity that is subject to income tax as a corporation under the United States Internal Revenue Code of 1986, as amended, is imposed an income tax of at least fifteen percent (15%) on all or part of the income of a controlled foreign corporation, as such term is defined

in the United States Internal Revenue Code of 1986, as amended (including any successor provisions thereof), then,

i. Beginning the first taxable year of the exempt business that coincides with the first taxable year for which the amendments to the United States Internal Revenue Code of 1986, as amended, become effective and for all subsequent taxable years, a fifteen percent (15%) rate shall apply, in lieu of the ten and a half percent (10.5%) rate established in subparagraph (A) of this paragraph (1), and

ii. Beginning the first taxable year of the exempt business that coincides with the first taxable year for which the amendments to the United States Internal Revenue Code of 1986, become effective and for all subsequent taxable years, an exempt business whose average industrial development income for the three preceding (3) taxable years is less than six hundred million dollars (\$600,000,000), and conducts manufacturing operations covered by the decree in at least four municipalities of Puerto Rico as of June 30, 2022, the exemption established in subparagraph (A) of Section 3A(a)(2) shall be seventy percent (70%), for each taxable year in which the average industrial development income for the three-year period preceding said taxable year, determined without considering the exemption provided in said section is greater than twenty percent (20%) of the average taxable purchases of the controlled group that would have been subject to excise tax under Section 2101 of the Internal Revenue Code of 1994, as amended.

(C) Both the ten and a half percent (10.5%) rate established in subparagraph (A) of this paragraph (1) and the fifteen percent (15%) rate established in subparagraph (B) of this paragraph (1), shall be imposed regardless of whether (a) the exempt business is a controlled foreign corporation, (b) the exempt business is directly or indirectly controlled by persons that are United States persons, as such

term is defined in the United States Internal Revenue Code of 1986, as amended, (c) all or any portion of the industrial development income of the exempt business is not subject to the tax imposed by the United States Internal Revenue Code of 1986, as amended, or the laws of any foreign country, and (d) the industrial development income of the exempt business, or any portion thereof, is not required to be recognized as income by any other person for purposes of the United States Internal Revenue Code of 1986, as amended, or the laws of any foreign country.

(D) Both ten and a half percent (10.5%) rate established in subparagraph (A) of this paragraph (1) and the fifteen percent (15%) rate established in subparagraph (B) of this paragraph (1), shall be imposed regardless of whether the tax paid in Puerto Rico, or any portion thereof, under subparagraph (A) or (B) of this paragraph (1) can be credited or not in the United States of America or a foreign country.

The Secretary of the Treasury may establish guidelines as are necessary under this subparagraph through regulation, administrative determination, circular letter, or general information bulletin.

(2) Special Industrial Development Income Exemption. - Notwithstanding other provisions of law, or any other provision of this Act, exempt businesses that elect to be taxed under paragraph (1) of this section, shall enjoy one of the following special industrial development income exemptions for the taxable year, as applicable, and subject to the following terms and conditions:

(A) Except as provided in subparagraphs (B), (C), and (D), twenty percent (20%) of the industrial development income of every exempt business with an average employment of one thousand (1,000) or more direct employees, and that also generated industrial development income of three hundred million dollars (\$300,000,000) or more for the immediately preceding taxable year, shall be exempt from the payment of income taxes. However, if the exempt business

is subject to the fifteen percent (15%) rate established in subparagraph (B) of paragraph (1) of this subsection, it shall be eligible for the exemption provided in this subparagraph with an average employment of one hundred (100) or more direct employees, in lieu of one thousand (1,000) or more direct employees.

(B) Except as provided in subparagraphs (C) and (D), sixty-seven percent (67%) of the industrial development income of every exempt business, with an average employment of one thousand (1,000) or more direct employees, and that also generated industrial development income of two billion five hundred million dollars (\$2,500,000,000) or more for the immediately preceding taxable year shall be exempt from the payment of income taxes.

(C) Except as provided in subparagraph (D), seventy-five percent (75%) of the industrial development income of every exempt business with an average employment of one thousand (1,000) or more direct employees, and that also generated industrial development income equal to or greater than seven billion five hundred million dollars (\$7,500,000,000) for the immediately preceding taxable year, shall be exempt from the payment of income taxes.

(D) Eighty-five percent (85%) of the industrial development income of every exempt business, with an average employment of four thousand (4,000) or more direct employees, and which payments subject to the income tax set forth in paragraph (3) of this section for the immediately preceding taxable year were equal to, or greater than, ninety percent (90%) of their industrial development income, shall be exempt from the payment of income taxes.

None of the above provisions shall be construed as allowing an exempt business to enjoy more than one of the special exemptions established in subparagraphs (A), (B), (C), or (D) of this paragraph (2), as the case may be, for a taxable year. The determination of whether for a taxable year an exempt business meets the requirements of subparagraphs (A), (B), (C), or (D) of this paragraph (2)

to enjoy the special exemption on industrial development income established in the applicable subparagraph, as the case may be, shall be made regardless of any adjustment, assignment or imputation of income, deductions, credits or concessions that the U.S. Internal Revenue Service may undertake after the taxable year under Section 482 of the United States Internal Revenue Code of 1986, Title 26 of the United States Code, as amended, or by any foreign country under similar or equivalent provisions, and that affects the industrial development income of the exempt business for said taxable year.

(3) Royalties, Rents and License Rights Under an Alternate Tax Rate Election. – Notwithstanding any other provision of law or this Section 3A, in the case of payments by an exempt business holding a decree issued under this Act and that has availed itself of the provisions of this Section 3A, to corporations, partnerships or nonresident persons, not engaged in a trade or business in Puerto Rico, for the use, or right to use patents, copyrights, formulas, technical know-how and other similar property in Puerto Rico in connection with operations declared exempt under this Act, and subject to such payments being totally considered from sources within Puerto Rico, there shall be imposed and collected, and such payments shall be subject to, a twelve percent (12%) tax, in lieu of any other tax, if any, imposed by law, subject to the terms of its tax exemption decree. However, thirty-seven and a half percent (37.5%) of these payments for the use, or the right to use patents, copyrights, formulas, technical know-how, and other similar property in Puerto Rico in connection with operations declared exempt under this Act, shall be exempt from income taxes, if the exempt business making such payments had an average employment of one hundred (100) or more direct employees, except for exempt business that enjoy the exemption provided in subparagraphs (A) and (D) of Section 3A(a)(2) of this Act, which may not claim the thirty-seven and a half percent (37.5%) exemption set forth in this paragraph (3). Payments for the use, or the right

to use patents, copyrights, formulas, technical know-how, and other similar property in Puerto Rico in connection with operations declared exempt under this Act; and subject to such payments being totally considered from sources within Puerto Rico, made by exempt businesses enjoying the exemption provided in subparagraph (D) of Section 3A(a)(2) of this Act, shall be subject to a thirteen percent (13%) tax, in lieu of any other tax, if any, imposed by law, subject to the terms of its tax exemption decree. Beginning the taxable year in which the payments subject to income tax provided in paragraph (3) of this subsection (a) made by exempt businesses enjoying the exemption provided in subparagraph (D) of Section 3A(a)(2) of this Act, increased by at least ten percent (10%) in comparison to the average paid in the taxable year for payments subject to the income tax provided in paragraph (3) of this subsection (a), or paid under any prior similar provision, for the three taxable years immediately preceding the first taxable year subject to this section, and subsequent years, the payments for the use, or the right to use patents, copyrights, formulas, technical know-how, and other similar property in Puerto Rico in connection with operations declared exempt under this Act, and subject to such payments being totally considered from sources within Puerto Rico, made by exempt businesses enjoying the exemption provided in subparagraph (D) of Section 3A(a)(2) of this Act, shall be subject to a twelve percent (12%) tax, in lieu of any other tax, if any, imposed by law, subject to the terms of its tax exemption decree. The exempt business making such payment shall deduct and withhold such tax and shall report and remit it to the Secretary of the Treasury in accordance with the Puerto Rico Internal Revenue Code or its successor law, as the case may be. The credit provided under Section 5(g) of Act No. 73-2008, as amended, may not be applied to payments subject to the tax established in this paragraph (3) or against the income tax established in Section 3A of this Act.

(b) Definitions. - For the purposes of this Section 3A, the term 'direct employee' means every individual resident of Puerto Rico hired by the exempt business, on a full-time, part-time, or temporary basis, to directly participate in activities covered by the decree, including employees of other employers or other persons that have been assigned or leased to the exempt business; provided, that such assigned or leased employees are not counted by their employers or other persons to meet the employment requirement under a decree, in accordance with the terms of the exempt business' decree and as annually reported by the exempt business to the Incentives Office in the annual report required by Section 6020.10 of Act No. 60-2019 and/or any other information return required by the Secretary of the Treasury. For the purposes of determining the number of direct full-time employees maintained by the exempt business during the taxable year, the sum of the total hours worked by all of the direct employees of the exempt business during the taxable year and the resulting amount shall be divided by two thousand eighty (2,080). The result, without considering decimals, shall be the number of direct employees during said taxable year. For these purposes, vacation or other authorized leaves may be considered as hours worked. However, overtime in excess of 40 hours per workweek, shall not be considered. To determine the average direct jobs, the exempt business shall add the total number of direct employees in each quarter of the taxable year immediately preceding the taxable year by the sum of the total number of quarters for the immediately preceding taxable year. In the case of exempt businesses that are members of a controlled group under Section 1010.04 of the Puerto Rico Internal Revenue Code of 2011, the average number of direct employees and the number of direct jobs created shall be determined considering the aggregate number of direct employees of all the members of the controlled group that are exempt businesses, and for purposes of subparagraphs (A), (B), (C), and (D) of paragraph (2) of subsection (a) of this section, as the case may be, the industrial

development income of the exempt business, and the amount of payments subject to the income tax set forth in paragraph (3) of subsection (a) of this section, shall be determined considering the aggregate industrial development income and the aggregate payments subject to the income tax set forth in paragraph (3) of subsection (a) of this section, of all the members of the controlled group that are exempt businesses. Partnerships shall be considered as corporations under Section 1010.04 of the Puerto Rico Internal Revenue Code of 2011 to determine whether they are members of the same controlled group for purposes of this Section 3A.

(c) Other Rules. – Except as provided in paragraph (3) of subsection (a) of this section, it shall be understood that any reference to the provisions of Section 3 in any other section of this Act shall also refer to the applicable or similar provisions of this Section 3A; provided, that the provisions of Section 3A apply to such other section, including but not limited to any reference to Sections 4, 5(a), 5(b), 5(c), 5(d), 5(e), 5(g) and 6 of this Act, the result of which shall be the application of the tax deductions and credits set forth in Sections 4, 5(a), 5(b) 5(c), 5(d), 5(e), 5(g) and 6 of this Act against the industrial development income subject to the rate established in this Section 3A, subject to the limitations established in subsection (h) of Section 5 of this Act. For the purposes of this Section 3A, the term ‘decree’ means a decree issued under this Act, a decree renegotiated under this Act, a decree extended under Section 10(a) of this Act or a degree converted under this Act. In addition, any transaction or series of transactions the main purpose of which is to avoid this section, including, but not limited to, the organization or use of corporations, partnerships, or other entities, the use of shareholder representative agreements (including facilitation agreements), or the use of any other plan or agreement shall be rendered ineffective, and the use of charges for personal property and services other than charges that would arise between uncontrolled persons operating at arm’s length shall also be rendered ineffective.”

Section 8.- Section 5 of Act No. 73-2008, as amended, known as the “Economic Incentives Act for the Development of Puerto Rico,” is hereby amended to read as follows:

“Section 5.- Credits. -

(a) Credit for Purchasing Products Manufactured in Puerto Rico.

(1) ...

(2) ...

(3) The credit provided for in this subsection shall be nontransferable, except in the case of an exempt reorganization. The amount of the credit not used by the tax-exempt business in a taxable year may be carried over to subsequent taxable years, until it is exhausted, subject to the provisions of subsection (h) of Section 1051.16 of the Puerto Rico Internal Revenue Code, if applicable. This credit shall not generate a refund.

(4) ...

(5) For taxable years beginning after December 31, 2021, every exempt business interested in claiming a tax credit under the provisions of this Section shall comply with the provisions of Sections 3020.01(a)(3) and 6030.01 of Act No. 60-2019.

(b) ...

(c) Credit for Investment in Research and Development, Clinical Trials, Toxicological Tests, Infrastructure, Renewable Energy, or Intangible Property.

(1) Except as provided in subparagraph (A) of this paragraph, any tax-exempt business holding a decree under this Act or under prior incentives laws may claim an investment credit equal to fifty percent (50%) of the special eligible investment made in Puerto Rico after the approval of this Act by said tax-exempt business or by any affiliate thereof. Any special eligible investment made before the deadline for filing the income tax return, as provided in the Puerto Rico Internal

Revenue Code, including any extension granted by the Secretary of the Treasury for the filing thereof, shall qualify for the tax credit under this paragraph in the taxable year for which the aforementioned return is filed. Said credit may be applied, at the option of the tax-exempt business, against the tax on industrial development income as provided in subsection (a) of Section 3 of this Act or against the income tax applicable under the prior incentives law under which the tax-exempt business was granted the decree, and/or against the operating expenses of the tax-exempt business related to electric power, water, and sewer systems.

Every tax-exempt business claiming a credit under the provisions of this subsection shall apply for a certification issued annually by the Puerto Rico Industrial Development Company, which certifies that the activities of a research and development project carried out in Puerto Rico are eligible for requesting the tax credit provided in Section 5(c) of this Act. If the Secretary of the DEDC decides not to extend the term provided herein, evaluating on a case-by-case basis, taking into account the best economic and social interests of Puerto Rico, said certificate shall be applied for on or before the deadline for filing the income tax return for the corresponding taxable year in which the eligible investment was made, as provided in the Puerto Rico Internal Revenue Code, including any extension granted by the Secretary of the Treasury for the filing thereof.

(A) For taxable years beginning after December 31, 2021, the following rules shall apply:

(i) The tax credit provided in this subsection shall be determined on the basis of the special eligible investment made in Puerto Rico in the taxable year;

(ii) The certification provided in paragraph (1) of this subsection shall include the amount of the special eligible investment, which shall be supported upon the presentation of Agreed Upon Procedures prepared by a

Certified Public Accountant holding a valid license in Puerto Rico, and the amount of the tax credit granted for each taxable year;

(iii) The tax-exempt business shall comply with the provisions of Section 6030.01 of Act No. 60-2019.

(2) ...

(3) Use of the Credit.- Except as provided in subparagraph (A) of this paragraph, the tax credit granted under this subsection may be taken in two (2) or more installments: up to fifty percent (50%) of said credit may be taken in the year in which the eligible investment is made, and the credit balance, in subsequent years until it is exhausted; subject to the provisions of subsection (h) of Section 1051.16 of the Puerto Rico Internal Revenue Code, if applicable; provided, that said limitation shall not apply as to operating expenses of said tax-exempt business which are related to electric power, water, and sewer systems. Provided, further, within thirty (30) days from the effective date of this Act, no exempt business may apply this tax credit against operating expenses related to electric power, water, and/or sewer, unless a certification of the Department of the Treasury attesting to the availability of such funds to cover said operating expenses is provided. This credit shall not generate a refund.

(A) The tax credit granted under this subsection as a result of a special eligible investment made in Puerto Rico for taxable years beginning after December 31, 2022, may be taken in two (2) or more installments: up to fifty percent (50%) of said credit may be taken in the year in which the certification provided in paragraph (1) of this subsection is issued, and the credit balance, in subsequent years until it is exhausted; subject to the provisions of subsection (h) of Section 1051.16 of the Puerto Rico Internal Revenue Code, if applicable. Provided that said credit may be applied to the income tax determined in a non-delinquent income tax return, including any extension, on the date of issue of the certification.

(4) ...

(h) Application of Credit and Minimum Tax. -

The application of the tax credits provided in this Section and in Section 6 of this Act, shall be subject to the following rules:

(1) Initially, the exempt business shall compute its tax obligation in accordance with applicable fixed income tax rate set forth in subsection (a) of Section 3 or Section 3A of this Act, as applicable, without considering the credits established in Sections 5 and 6 of this Act.

(2) Application of Credits. – The total sum of the tax credits granted under Section 6 of this Act, and under Sections (a), (b), (c), (d), (e), (f), and (g) of this Section 5, as each one of these apply, claimed by the exempt business shall be deducted from the tax obligation computed under paragraph (1) of this subsection (h). The credit provided in Section 5(f) of this Act or any carryover balance thereof shall not apply to exempt business that elect to be taxed under the provisions of Section 3A of this Act.

(3) Minimum Tax. – The sum of the determined tax on industrial development income computed after applying the credits in accordance with paragraph (2) of this subsection shall never be less than the amount which, added to the amounts deposited under subsection (b) of Section 3, with respect to the taxable year, result in:

(A) One percent (1%) of the net industrial development income of the tax-exempt business, for small- or medium-sized businesses;

(B) Three percent (3%) of the net industrial development income of the tax-exempt business, for local investment businesses;

(C) Except as provided in subparagraph (D), the fixed income tax rate provided in subsection (a) of Section 3 of this Act applicable to the tax-exempt business, multiplied by net industrial development income of the tax-exempt

business, without including the income described in subsection (j) of Section 2 of this Act, for all other businesses.

(D) The result of the tax determined on industrial development income computed after applying the credits under paragraph (2) of this subsection (h), with respect to the taxable year, shall not be less than the amount computed under paragraph (1) of this subsection (h), for exempt businesses subject to taxation under Section 3A of this Act.

(4) The tax-exempt business holding a decree granted under this Act, shall pay the amount under paragraph (2) or paragraph (3) of this subsection (h), whichever is greater.

(5) In the cases described in subparagraphs (A) and (B) of paragraph (3) of this subsection (h), the minimum tax provided therein shall cease to apply, and subparagraph (B) or (C), whichever one applies, shall be applicable, for taxable years in which the tax-exempt business ceases to qualify as a small- or medium-sized business or as a local investment business, as the case may be.

(6) A tax-exempt business holding a decree granted under a prior tax incentives law and which claims special deductions or credits under said prior tax incentives law, may not claim similar tax credits granted under this Sections 5 and 6 of this Act.”

Section 9.- Paragraph (1) of Subsection (b) and Subsection (c) of Section 6 of Act No. 73-2008, as amended, known as the “Economic Incentives Act for the Development of Puerto Rico,” are hereby amended to read as follows:

“Section 6.- Industrial Investment Credit. -

(a) ...

(b) General Rule. - (1) Subject to the provisions of paragraph (2) of this subsection, any investor may claim an industrial investment credit equal to fifty percent (50%) of his eligible investment made after the date of approval of this Act,

to be taken in two (2) or more installments: the first half of said credit, in the year in which the eligible investment is completed, and the credit balance, in subsequent years. Any eligible investment made before the due date for filing the income tax return, as provided for in the Puerto Rico Internal Revenue Code, including any time extension granted by the Secretary of the Treasury for the filing thereof, shall qualify for the tax credit of this Section in the taxable year for which the aforementioned return is being filed; provided, that all requirements of this Section are met. Said industrial investment credit may only be applied against the tax determined under Subtitle A of the Puerto Rico Internal Revenue Code for the investor, including the alternative minimum tax of Section 1017 and the alternative tax on individuals of Section 1011(b) of the Puerto Rico Internal Revenue Code. If the investor is a tax-exempt business, said investor may claim this credit against the tax imposed subsection (a) of Section 3 of this Act.

(2) ...

(c) Credit Carryover. – An industrial investment credit not used in a taxable year may be carried over to subsequent taxable years, until it is exhausted, subject to the provisions of subsection (h) of Section 1051.16 of the Puerto Rico Internal Revenue Code, if applicable.

(d) ...”

Section 10.- A new subsection 13A is hereby added to Act No. 73-2008, as amended, known as the “Economic Incentives Act for the Development of Puerto Rico,” to read as follows:

“Section 13A. Interagency Consideration of Application for Amendment Pursuant to Section 3A. – Once the Incentives Office for Businesses in Puerto Rico or the successor thereof receives an application for amendment of decree under Section 3A of this Act, its Director shall notify the Secretary of the Treasury with a copy of the application for amendment of decree within five (5) days from the filing

date thereof. When evaluating an application for amendment of decree, the Secretary of the Treasury shall, among other matters, verify compliance of the shareholders or partners of the exempt business with their tax obligation under the Puerto Rico Internal Revenue Code of 2011, as amended. This evaluation shall not be necessary in the case of Puerto Rico non-resident shareholders or public corporations, unless such non-resident shareholders or public corporations were, or are, a member of a controlled group of the exempt business, as defined in Section 1123(h)(3) of the Puerto Rico Internal Revenue Code of 1994, and were, or are, subject to the rules of Section 1123(f)(4)(B) or Sections 2101 through 2106 of the Puerto Rico Internal Revenue Code of 1994, as amended, any substitute provision. The Secretary of the Treasury shall not endorse an application for amendment of decree if said tax liabilities are not met. The Director of the Incentives Office for Businesses in Puerto Rico shall issue an eligibility and recommendation report on the application for amendment of decree and notify the Secretary of the Treasury with a draft amendment of decree for the Secretary's evaluation and recommendation. Any unfavorable recommendation on the draft amendment of decree shall state the reasons therefor. The Secretary of the Treasury shall file a report or recommendation on the draft amendment of decree within ten (10) days. If the Secretary of the Treasury issues a favorable report or recommendation, or if the Incentives Office for Businesses in Puerto Rico or the successor thereof, does not receive a report or recommendation within the aforementioned ten (10)-day period, the draft amendment of decree shall be deemed to have received a favorable recommendation from the Secretary of the Treasury, and the Secretary of the Department of Economic Development and Commerce of Puerto Rico shall make a final determination in writing on the application for amendment.”

Section 11.- Section 1000.03 of Act No. 60-2019, as amended, is hereby amended to read as follows:

“Section 1000.03.- Governing Principles of the Incentives Code.

(a) Return on Investment- As used in this Code, the term Return on Investment refers to the ratio between the net benefit and the cost of granting the Incentive. The foregoing includes the result of the total benefits minus the total costs, divided by the total costs. The benefits taken into consideration include: a) direct payroll taxes; b) indirect and induced payroll taxes; c) Sales and Use Taxes on direct and indirect economic activity; and d) taxes on consumption by nonresidents. The costs used in the formula include: a) credits; b) investments; c) subsidies; and d) opportunity costs related to income tax exemptions. These calculations vary per industry, and the multipliers by type of production and type of employment according to the tables of the North American Industry Classification System (NAICS). The DEDC shall consider different types of investments that shall be implemented through the Incentives Regulations by using the Return on Investment (ROI) formula as well as other factors that help assess the effectiveness of such incentives including, but not limited to, the following factors:

- (i) The different sources of tax revenue generated by the activity;
- (ii) The total sum of the tax and economic benefits granted;
- (iii) The direct, indirect, and induced effects based on the official multipliers provided or endorsed by the Planning Board;
- (iv) Local purchases, including the purchase of Products Manufactured in Puerto Rico and agricultural products from Puerto Rico; and
- (v) An analysis of the benefits attributable to incremental and non redundant economic activity rather than to sustainable economic activity by aggregate local demand relaxing to the transfer of knowledge, the financial commitment with local banks and/or cooperatives, among others.

(b) Governing Principles for establishing the conditions of decrees. - In granting decrees for the business activities promoted under this Code, as well as in

overseeing compliance therewith, the Secretary of the DEDC and the Incentives Office shall ensure that the parameters set forth below are included and safeguarded:

(i) Jobs. - The activity shall promote the creation of new jobs.

(ii) Sound Integration. - The conceptual design and planning of the activity shall be, above all, carried out while taking into account environmental, geographical, and physical aspects, as well as the materials and goods that are abundantly available in the site where it is to be developed.

(iii) Commitment to the Economic Activity. - The exempt business shall acquire raw materials and Products Manufactured in Puerto Rico for the construction, maintenance, renovation, or extension of the physical facilities thereof. If the purchase of said products is not financially justified when taking into account criteria such as the quality, quantity, price, and availability of these products in Puerto Rico, the Secretary of the DEDC may waive compliance with this requirement and issue a specific dispensation for such purposes.

(iv) Commitment to Agriculture. - The exempt business shall acquire agricultural products from Puerto Rico to be used in its operations. If the purchase of said products cannot be financially justified when considering criteria such as the quality, quantity, price, or availability of these products in Puerto Rico, the Secretary of the DEDC may waive compliance with this requirement and issue a specific dispensation for such purposes.

(v) Transfer of Knowledge. - The exempt business shall acquire services from professionals or companies with a presence in Puerto Rico. However, if this is not possible due to criteria such as availability, experience, specificity, skill, or any other valid reason recognized by the Secretary of the DEDC, the exempt business may acquire such services through an intermediary with a presence in Puerto Rico, which shall contract directly with the service provider chosen by the exempt business, in order to receive the requested services.

The term 'services' shall mean, without impairing the authority of the Secretary of the DEDC to include other services through regulations, the contracting of jobs relating to:

- (I) Surveying, the production of construction plans, as well as engineering and architectural designs, and related services;
- (II) construction and all that pertains to this sector;
- (III) financial, environmental, technological, scientific, management, marketing, human resources, information technology, and auditing consulting services;
- (IV) advertising, public relations, commercial art, and graphic design services; and
- (V) security or facility maintenance.

(VI) Financial Commitment. - The exempt business shall show proof that they use the services of, and that they deposit a substantial amount of the income derived from their economic activity in, banking institutions or cooperatives with a presence in Puerto Rico. If the exempt business deposits ten (10) percent of the funds derived from its incentivized economic activity in banking institutions or cooperatives with a presence in Puerto Rico, such funds shall be deemed to be substantial income; therefore, the exempt business shall be deemed to be compliant with this Act.

Notwithstanding specific provisions of specific sections, the governing principles set forth herein shall apply to the activities incentivized by this Code and shall be verified in order to obtain the appropriate Certificate of Compliance.

(c) Annual Report on the Effectiveness of Incentives- The DEDC shall analyze the effectiveness of the incentives and other economic development tools used during the previous Fiscal Year of the Government of Puerto Rico and shall

submit a copy of such report before April 1 of each calendar year to the Governor of Puerto Rico, the clerk of the House of Representatives and the Secretary of the Senate, the Puerto Rico Fiscal Agency and Financial Advisory Authority, the Permit Management Office, and the Department of the Treasury for review and dissemination through their websites.

- (d) ...
- (e) ...
- (f) ...
- (g) ...”

Section 12.- Section 1000.04 of Act No. 60-2019, as amended, is hereby amended to read as follows:

“Section 1000.04.- Bill of Rights for Decree Holders and its Shareholders.

- (a) ...

(b) Tax exemption Decrees constitute a contract between the Government of Puerto Rico, the Exempt Business, and its shareholders. The terms and conditions agreed upon in the contract shall be honored during the effective term of the tax exemption Decree, subject to the Decree Holder obtaining a Certificate of Compliance attesting to the Decree Holder’s compliance with the terms and conditions thereof.

- (c) ...

(i) Every Exempt Business and its shareholders shall be entitled to be notified, in writing, of any modifications the DEDC makes to the Decree as a result of the exempt business’ failure to obtain a Certificate of Compliance, as well as of any a modification to the certificate in question due to partial noncompliance of any provision of the decree. The DEDC shall notify the nature of the modification made to the Decree and the grounds for such changes, as well as afford them the opportunity to be heard as required by the due process.

...

(j) ...”

Section 13.- Section 1010.01 of Act No. 60-2019, as amended, is hereby amended to read as follows:

“Section 1010.01.- Declaration of Public Policy.

(a) ...

...

(d) This Code shall be governed by the following guiding principles:

(1) ...

...

(7) To oversee strict compliance with the commitments made by companies in exchange for economic benefits through a Certificate of Compliance.”

Section 14.- Section 1020.01 of Act No. 60-2019, as amended, is hereby amended to read as follows:

“Section 1020.01.- General Definitions.

(a) ...

(1) ...

...

(8A) Certificate of Compliance. - Means the document undersigned by a Compliance Professional validating that the natural or juridical person that applies for, amends, or wishes to maintain a tax incentive or benefit meets the requirements of this Act as well as those set forth in the decree.

(9) ...

...

(48A) Compliance Professional. - Means the official responsible for overseeing that eligible businesses comply with the provisions of their respective

decrees. Provided, that the professional shall be an attorney-at-law or a certified public accountant holding a valid license to practice in Puerto Rico.

(49) ...

(65) Incentives Regulations. - Means the document or documents approved by the Secretary of the DEDC for the implementation and administration of this Code. In said Regulation or Regulations, the Secretary of the DEDC shall adopt the necessary guidelines, in consultation with the pertinent agencies, when the areas or matters to be regulated require the expertise of any agency or office with specialized knowledge in the economic sector to be affected. With regard to fiscal and tax matters, rules shall be adopted in conjunction with the Secretary of the Treasury. Determinations of net income subject to taxation shall be made pursuant to Act No. 1-2011, as amended; therefore, the Secretary of the Treasury shall have sole responsibility over any regulations adopted to such effects. Provided, further, that the Secretary of the Treasury may prescribe regulations to provide that a request for revocation of Decree shall be submitted to the Secretary of the DEDC if the Decree holder fails to make a determination of net income subject to income tax or to file the required returns, forms, or declarations. Provided, further, that the Secretary of the DEDC and the Secretary of Agriculture may adopt joint regulations for agricultural and livestock activities contained in this Code, insofar as the processes and systems integrated between the two agencies are maintained and it is ensured that farmers have the support personnel and tools in each region of the Department of Agriculture.

...”

Section 15.- Section 2012.02 of Act No. 60-2019, as amended, known as the “Puerto Rico Incentives Code,” is hereby amended to read as follows:

“Section 2012.02.- Credit for Purchasing Products Manufactured in Puerto Rico.

An Exempt Business that is a New SMB may apply to the DEDC for a Tax Credit for Purchasing Products Manufactured in Puerto Rico of up to thirty percent (30%) of the purchases of such products, subject to the provisions of Sections 3000.01 and 3000.02 of this Code.

The credit provided in this Section shall be non-transferable, except in the case of an exempt reorganization. The amount of the credit not used by the exempt business in a taxable year may be carried over to subsequent taxable years until it is exhausted, subject to the provisions of subsection (h) of Section 1051.16 of the Puerto Rico Internal Revenue Code, if applicable. This credit shall not generate a refund.”

Section 16.- Subsection (b) of Section 2013.03 of Act No. 60-2019, as amended, known as the “Puerto Rico Incentives Code,” is hereby amended to read as follows:

“Section 2013.03.- Credit for Purchasing Products Manufactured in Puerto Rico.

(a) ...

(b) The credit provided for in this Section shall be non-transferrable, except in the case of an exempt reorganization. The amount of the credit not used by the Exempt Business in a taxable year may be carried over to subsequent taxable years until it is exhausted, subject to the provisions of subsection (h) of Section 1051.16 of the Puerto Rico Internal Revenue Code, if applicable. This credit shall not generate a refund.

Section 17.- Section 2021.03 of Act No. 60-2019, as amended, is hereby amended to read as follows:

“Section 2021.03 - Qualified Physicians.

(a) Every individual admitted to the practice of medicine, podiatric medicine; or who is a dental surgeon or practices any dental specialty and meets the

requirements of Section 2023.02 of this Code, may apply to the Secretary of the DEDC to be granted the economic incentives provided in Section 2022.04. Every Qualified Physician who is a Puerto Rico resident, as defined in Section 1010.01(a)(30) of the Internal Revenue Code, shall have until September 30, 2019, to apply for a Decree under this Chapter. However, every Qualified Physician who is not a Puerto Rico resident as of the effective date of this Code, as defined in Section 1010.01(a)(30) of the Internal Revenue Code, shall have until June 20, 2020, to apply for a Decree under this Chapter. Applications received after the aforementioned dates shall not be accepted, except in the case of dental surgeons who do not practice any dental specialty, who shall have until June 30, 2020 to apply for a Decree under this Act. Provided, however, that the applications filed after April 21, 2019 shall be considered under the provisions of this Code. Applications for new decrees shall be received until June 30, 2022, after such date no applications shall be accepted.

(b) ...”

Section 18.- Section 2022.04 of Act No. 60-2019, as amended, is hereby amended to read as follows:

“Section 2022.04.- Special Tax for Qualified Physicians.

(a) It is hereby provided that beginning July 1, 2022, but not later than June 30, 2022 the tax benefits provided in this Section shall cease; provided, that any Qualified Physician holding a Decree under this Code shall continue enjoying the tax benefits under the Decree, in accordance with the terms and conditions of said Decree and this Code.

(b) ...

(c) ...

(d) Decree Extension. - Any Qualified Physician who, throughout his exemption period, has met the requirements and complied with the conditions

established in the Decree, and shows to the Secretary of the DEDC that the extension of said Decree shall serve the best economic and social interests of the people of Puerto Rico, may request the Secretary an extension of his Decree for fifteen (15) additional years, for a total of thirty (30) years. It is hereby provided that every Qualified Physician shall have until June 30, 2022 to apply to the Secretary for a Decree extension in accordance with this subsection, after such date no applications shall be received. Provided, that for a period that shall never exceed three (3) years during which a Qualified Physician renders services as an official of the agencies or instrumentalities of the Government of Puerto Rico or public corporations, even when not rendering medical services, the Qualified Physician may use this fact as the basis to request a dispensation from meeting the requirement of working as a full-time Qualified Physician and not have his Decree revoked. The Secretary shall evaluate the request using at least the same requirements provided in this subsection for the evaluation of Decree extensions.”

Section 19.- Section 2053.01 of Act No. 60-2019, as amended, is hereby amended to read as follows:

“Section 2053.01.- Requirements for Decree Applications.

(a) ...

(b) Any person may apply for the benefits of this Chapter; provided, that said person meets the eligibility requirements of Subchapter A of this Chapter as well as any other criteria that the Secretary of the DEDC prescribes by regulations, administrative order, circular letter, or any other general communication, including as evaluation criteria, the Eligible Business’ contribution to the economic development of Puerto Rico. The criteria to be used shall be the following:

(1) ...

...

(3) Commitment to the Economic Activity. - The Exempt Business shall acquire raw materials and Products Manufactured in Puerto Rico for the construction, maintenance, renovation, or extension of the physical facilities thereof. If the purchase of said products is not financially justified when taking into account criteria such as the quality, quantity, price, and availability of these products in Puerto Rico, the Secretary of the DEDC may waive compliance with this requirement and issue a specific dispensation for such purposes.

(4) Commitment to Agriculture. - The Exempt Business shall acquire agricultural products from Puerto Rico to be used in its operations. If the purchase of said products cannot be financially justified when considering criteria such as the quality, quantity, price, or availability of these products in Puerto Rico, the Secretary of the DEDC may waive compliance with this requirement and issue a specific dispensation for such purposes.

(5) Transfer of Knowledge. - The Exempt Business shall acquire services from professionals or companies with a presence in Puerto Rico. However, if this is not possible due to criteria such as availability, experience, specificity, skill, or any other valid reason recognized by the Secretary of the DEDC, the Exempt Business may acquire such services through an intermediary with a presence in Puerto Rico, which shall contract directly with the service provider chosen by the Exempt Business, in order to receive the requested services.

The term 'services' shall mean...

(6) Financial Commitment. - The Exempt Business shall show proof that they use the services of, and that they deposit a substantial amount of the income derived from their economic activity in, banking or cooperative institutions with a presence in Puerto Rico. If the exempt business deposits ten (10) percent of the funds derived from its incentivized economic activity in banking institutions or cooperatives with a presence in Puerto Rico, such funds shall be deemed to be

substantial income; therefore, the exempt business shall be deemed to be compliant with this Act.

(7) The Secretary of the DEDC, through a Compliance Professional, shall be the sole official responsible for verifying and ensuring that the Exempt Business meets the eligibility requirements established in this Section and in this Chapter. If the Exempt Business partially meets the requirements established in this Section, the Secretary of the DEDC shall be required to establish a formula that allows for the quantification of the aforementioned factors, and for the subtraction of the requirement that has not been met from the total percentage of the specific tax credit, in order to obtain the exact percentage of the benefit in question.”

Section 20.- Paragraph (3) is hereby added to subsection (a), paragraph (4) is hereby added to subsection (b), subsections (j) and (k); and paragraph (1) of subsection (h) and subsection (i) are hereby amended in Section 2062.01 of Act No. 60-2019, as amended, known as the “Puerto Rico Incentives Code,” to read as follows:

“Section 2062.01.- Income Tax.

(a) Flat Income Tax Rate. -

...

(1) ...

...

(3) Special Tax Rate on Industrial Development Income. -

(i) Exempt Businesses that were subject to taxation under a Decree issued under Section 3A of Act No. 135-1997 and Section 3A of Act No. 73-2008, may apply for a Decree under the provisions of this Code, which shall be subject to the income tax rates established in subsections (a)(3) and (b)(4) of this Section; provided, that the application for Decree under this Code is filed on or before the expiration date of the Decree issued under Section 3A of Act No. 135-

1997 or Section 3A of Act No. 73-2008, as the case may be. Moreover, Exempt Businesses that begin operations after December 31, 2022 and that apply for a Decree under this Chapter, (I) that are members of a controlled group, as defined in Section 1123(h)(3) of the Puerto Rico Internal Revenue Code of 1994, and that were, if not for this paragraph (3) would be subject to the rules of Section 1133 (f)(4)(B) and the rules of Sections 2101 through 2106 of the Puerto Rico Internal Revenue Code of 1994, as amended, any successor or similar provision of the Puerto Rico Internal Revenue Code of 2011, as amended, or any substitute or successor provision, or (II) whose average annual gross receipts for the three (3) previous taxable years from the sale of personal property manufactured or produced, in whole or in part, by the Exempt Business in Puerto Rico, and the services rendered by the Exempt Business in Puerto Rico exceed seventy-five million dollars (\$75,000,000) shall be subject to a ten and a half percent (10.5%) income tax rate on their industrial development income from sales of products or services, in lieu of any other tax, if any, imposed by law. Absent a provision to the contrary, such tax shall be paid in the form and manner provided by the Puerto Rico Internal Revenue Code of 1994, or any subsequent general income tax law. As of the effective date of the Decree subject to the rates established in subsections (a)(3) and (b)(4) of this Section, no member of a controlled group of the Exempt Business, as defined in Section 1123(h)(3) of the Puerto Rico Internal Revenue Code of 1994, as amended, shall be subject to the rules of Section 1123(f)(4)(B) or Sections 2101 through 2016[sic] of the Puerto Rico Internal Revenue Code of 1994, as amended, any successor or similar provision of the Puerto Rico Internal Revenue Code of 2011, as amended, or any substitute or successor provision. An application for Decree under this paragraph (3) shall be filed by the Exempt Business with the Secretary of the Department of Economic Development and Commerce. The Secretary of the Department of Economic Development and Commerce may authorize a Decree under this

paragraph (3); provided, that the Secretary of the Treasury and the Secretary of the Department of Economic Development and Commerce determine that such Decree shall be in the best economic and social interest of Puerto Rico. To determine what constitutes the best economic and social interests of Puerto Rico, factors such as the following shall be analyzed: the nature of the exempt business under this Act, the technology used, the substantial employment that the same provides, location of the exempt business, potential impact of hiring local suppliers, the convenience of having local supplies of the product or any other benefit or factor that warrants such determination. For the purposes of Section 1123(f)(4)(B) and Sections 2101 through 2106 of the Puerto Rico Internal Revenue Code of 1994, or any substitute or successor statute, a Decree under this paragraph (3) that is approved by the Secretary of the Department of Economic Development and Commerce and accepted by the Exempt Business shall be binding on all the members of a controlled group of the Exempt Business, as defined in Section 1123(h)(3) of the Puerto Rico Internal Revenue Code of 1994, as amended, and the Secretary of the Treasury.

(ii) If the United States of America amends the provisions of Section 250(a)(3), Section 11(b), Section 951(A), or any other Section of the United States Internal Revenue Code of 1986, as amended, (including any successor provision thereof) and, as a result of any such amendment(s) an entity that is subject to income tax as a corporation under the United States Internal Revenue Code of 1986, as amended, is imposed an income tax of at least fifteen percent (15%) on all or part of the income of a controlled foreign corporation, as such term is defined in the United States Internal Revenue Code of 1986, as amended (including any successor provisions thereof), then,

(I) Beginning with the first taxable year of the exempt business that coincides with the first taxable year for which the amendments to the United States Internal Revenue Code of 1986 become effective and for all

subsequent taxable years, a fifteen percent (15%) rate shall apply, in lieu of the ten and a half percent (10.5%) rate established in subparagraph (i) of paragraph (3), and

(II) Beginning with the first taxable year of the exempt business that coincides with the first taxable year for which the amendments to the United States Internal Revenue Code of 1986 become effective and for all subsequent taxable years, an exempt business whose average industrial development income for the three preceding (3) taxable years is less than six hundred million dollars (\$600,000.000), and conducts manufacturing operations covered by the decree in at least four municipalities of Puerto Rico as of June 30, 2022, the exemption established in subparagraph (A) of Section 2062.01(a)(3)(v) shall be seventy percent (70%), for each taxable year in which the average industrial development income for the three-year period preceding said taxable year, determined without considering the exemption provided in said Section is greater than twenty percent (20%) of the average taxable purchases of the controlled group that would have been subject to excise tax under Section 2101 of the Internal Revenue Code of 1994, as amended.

(iii) Both the ten and a half percent (10.5%) rate established in subparagraph (i) of paragraph (3) and the fifteen percent (15%) rate established in subparagraph (ii) of this paragraph (3) shall be imposed regardless whether (a) the exempt business is a controlled foreign corporation, (b) the exempt business is directly or indirectly controlled by persons that are United States persons, as such term is defined in the United States Internal Revenue Code of 1986, as amended, (c) all or any portion of the industrial development income of the exempt business that is not subject to the tax imposed by the United States Internal Revenue Code of 1986, as amended, or the laws of any foreign country, and (d) the industrial development income of the exempt business, or any portion thereof, is not required to be

recognized as income by any other person for purposes of the United States Internal Revenue Code of 1986, as amended, or the laws of any foreign country.

(iv) Both the ten and a half percent (10.5%) rate established in subparagraph (i) of paragraph (3) and the fifteen percent (15%) rate established in subparagraph (ii) of this paragraph (3) shall be imposed regardless of whether the tax paid in Puerto Rico, or any portion thereof, under subparagraph (i) or (ii) of this paragraph (3) may be credited or not in the United States of America or a foreign country.

The Secretary of the Treasury may establish guidelines as are necessary under this subparagraph through regulation, administrative determination, circular letter, or general information bulletin.

(v) Notwithstanding other provisions of law or any provision of this Code, the exempt businesses holding a decree under subparagraph (i) or (ii) of this paragraph (3) shall enjoy one of the following special industrial development income exemptions for the taxable year, as applicable, and subject to the following terms and conditions:

(A) Except as provided in clauses (B), (C), and (D), twenty percent (20%) of the industrial development income of every exempt business with an average employment of one thousand (1,000) or more direct employees, and that, also generated industrial development income of three hundred million dollars (\$300,000,000) or more for the immediately preceding taxable year, shall be exempt from the payment of income taxes. However, if the exempt business is subject to the fifteen percent (15%) rate established in subparagraph (ii) of paragraph (3), it shall be eligible for the exemption provided in this subparagraph with an average employment of one hundred (100) or more direct employees, in lieu of one thousand (1,000) or more direct employees.

(B) Except as provided in clauses (C) and (D), sixty-seven percent (67%) of the industrial development income of every exempt business with an average employment of one thousand (1,000) or more direct employees, and that also generated an industrial development income of two billion five hundred million dollars (\$2,500,000,000) or more for the immediately preceding taxable year shall be exempt from the payment of income taxes.

(C) Except as provided in clause (D), seventy-five percent (75%) of the industrial development income of every exempt business with an average employment of one thousand (1,000) or more direct employees, and that also generated industrial development income equal to or greater than seven billion five hundred million dollars (\$7,500,000,000) for the immediately preceding taxable year, shall be exempt from the payment of income taxes.

(D) Eighty-five percent (85%) of the industrial development income of every exempt business with an average employment of four thousand (4,000) or more direct employees, and which payments subject to the income tax set forth in subsection (b)(4) of this Section for the immediately preceding taxable year were equal to, or greater than, ninety percent (90%) of their industrial development income, shall be exempt from the payment of income taxes.

None of the above provisions shall be construed as allowing an exempt business to enjoy more than one of the special exemptions established in clauses (A), (B), (C), or (D) of this Section 2062.01(a)(3)(v), as the case may be, for a taxable year. The determination of whether for a taxable year an exempt business meets the requirements of clauses (A), (B), (C), or (D) of this Section 2062.01(a)(3)(v) to enjoy the special exemption on industrial development income established in the applicable subparagraph, as the case may be, shall be made regardless of any adjustment, assignment, or imputation of income, deductions, credits, or concessions that the U.S. Internal Revenue Service may undertake after

the taxable year under Section 482 of the United States Internal Revenue Code of 1986, Title 26 of the United States Code, as amended, or by any foreign country under similar or equivalent provisions, and that affects the industrial development income of the exempt business for said taxable year.

(b) Royalties, Rents, and License Rights. -

...

(1) ...

...

(4) Royalties, Rents and License Rights under a Special Rate Election.- Notwithstanding any other provision of law or this Section 2062.01, in the case of payments by an Exempt Business holding a Decree issued under this Code and that has availed itself to the provisions of Section 2062.01(a)(3), to corporations, partnerships or nonresident persons, not engaged in trade or business in Puerto Rico, for the use or right to use patents, copyrights, formulas, technical know-how, and other similar property in Puerto Rico in connection with operations declared exempt under this Code, and subject to such payments being totally considered from sources within Puerto Rico, there shall be imposed and collected, and such payments shall be subject to, a twelve percent (12%) rate, in lieu of any other tax, if any, imposed by law, subject to the terms of its tax exemption Decree. However, thirty-seven and a half percent (37.5%) of these payments for the use, or the right to use patents, copyrights, formulas, technical know-how, and other similar property in Puerto Rico in connection with operations declared exempt under this Act, shall be exempt from income taxes, if the exempt business making such payments had an average employment of one hundred (100) direct employees or more, except for exempt business that enjoy the exemption provided in clauses (A) and (D) of Section 2062.01(a)(3)(v) of this Code, which may not claim the thirty-seven and a half percent (37.5%) exemption set forth in this paragraph (4). The exempt business

making such payment shall deduct and withhold such tax and shall report and remit it to the Secretary of the Treasury in accordance with the Puerto Rico Internal Revenue Code or successor law, as the case may be. The credit provided under Section 2062.01(h) of this Code, as amended, may not be applied to payments subject to the tax established in this paragraph (4) or against the income tax established in Section 2062.01(a)(3) of this Act. Payments for the use, or the right to use patents, copyrights, formulas, technical know-how, and other similar property in Puerto Rico in connection with operations declared exempt under this Act; and subject to such payments being totally considered from sources within Puerto Rico, made by exempt businesses enjoying the exemption provided in (D) of Section 2062.01(a)(3)(v) of this Act, shall be subject to a thirteen percent (13%) tax, in lieu of any other tax, if any, imposed by law, subject to the terms of its tax exemption decree. Beginning the taxable year in which the payments subject to income tax provided in paragraph (4) of this subsection (b) made by exempt businesses enjoying the exemption provided in (D) of Section 2062.01(a)(3)(v) of this Act, increased by at least ten percent (10%) in comparison to the average paid in the taxable year for payments subject to the income tax provided in paragraph (4) of this subsection (b), or paid under any prior similar provision, for the three (3) taxable years immediately preceding the first taxable year subject to this Section, and subsequent years, the payments for the use, or the right to use patents, copyrights, formulas, technical know-how, and other similar property in Puerto Rico in connection with operations declared exempt under this Act, and subject to such payments being totally considered from sources within Puerto Rico, made by exempt businesses enjoying the exemption provided in clause (D) of Section 2062.01(a)(3)(v) of this Act, shall be subject to a twelve percent (12%) rate, in lieu of any other tax, if any, imposed by law, subject to the terms of its tax exemption decree.

(c) ...

...

(h) Credit for Investments in Technology Transfers. -

(1) Exempt Businesses holding a Decree under this Chapter, issued by the Secretary of the Department of Economic Development and Commerce before December 31, 2022, and subject to the income tax rate provided in paragraph (1) subsection (a) of this Section may take a credit against the income tax attributable to the net income of its industrial development income, equal to the rate provided in paragraph (1) of subsection (b) of this Section with regard to payments made to Foreign Persons not engaged in trade or business in Puerto Rico, for the use or privilege to use in Puerto Rico Intangible Property in an operation declared exempt under this Chapter; provided, that the income on account of such payments is fully derived from sources within Puerto Rico.

(i) Application of Credit and Minimum Tax. - The application of the credit established in Sections 3020.01 and 3030.01 of this Code, as applicable, shall be subject to the following rules:

(1) Tentative Tax. - The Exempt Business shall initially compute its tax obligation according to the flat income tax rate provided in paragraphs (1), (2), and (3) of subsection (a) of this Section, without considering the credits established in Sections 3020.01 and 3030.01 of this Code, as the case may be.

(2) Application of Credits. - The total of the sum of tax credits granted under Sections 3020.01 and 3030.01 of this Code, as each may be applicable and subject to the limitations that apply to each credit and claimed by the Exempt Business, shall be reduced from the tax obligation computed in paragraph (1) of this subsection (i).

(3) Minimum Tax. - The tax assessed over Industrial Development Income computed after having applied the credits pursuant to paragraph (2) of this subsection, with respect to the taxable year, shall never be less than:

i. One percent (1%) of the Industrial Development Income of the Exempt Business, in the case of Exempt Businesses which generate an average gross income, including the gross income of members of their controlled group, or of the affiliated group, as such terms are defined in Sections 1010.04 and 1010.05 of the Internal Revenue Code, of less than ten million dollars (\$10,000,000.00) during the three (3) previous taxable years.

ii. Three percent (3%) of the Industrial Development Income of the Exempt Business, in the case of local investment businesses; for the purposes of this subsection, a local investment business means any Exempt Business of which at least fifty percent (50%) belongs directly to Resident Individuals of Puerto Rico.

iii. For all other cases, except as provided in subparagraph (iv), the tax obligation computed under paragraph (1) of subsection (a) of this Section, as the case may be, excluding Eligible Investment Income.

iv. In the case of exempt businesses subject to taxation in accordance with the provisions of paragraph (3) of subsection (a) and paragraph (4) of subsection (b) of this Section 2062.01, the Industrial Development Income Tax computed after applying the credit in accordance with paragraph (2) of this subsection (i), with respect to the taxable year, shall not be less than the amount computed in paragraph (1) of this subsection (i).

(4) An Exempt Business holding a decree granted under this Chapter shall pay whichever amount is higher between paragraph (2) or paragraph (3) of this subsection.

(5) In the cases described in subparagraphs (i) and (ii) of paragraph (3) of this subsection, the minimum tax provided therein shall cease to apply, and subparagraph (ii) or (iii), as the case may be, shall be applicable, for Taxable Years in which the Exempt Business fails to comply with the provisions of subparagraph (i) or (ii), as the case may be.

(j) Definitions.- For the purposes of subsections (a)(3) and (b)(4) of this Section 2062.01, the term 'direct employee' means every individual resident of Puerto Rico hired by the exempt business, on a full-time, part-time, or temporary basis, to directly participate in activities covered by the decree, including employees of other employers or other persons that have been assigned or leased to the exempt business; provided, that such assigned or leased employees are not counted by their employers or other persons to meet the employment requirement under a decree, in accordance with the terms of the exempt business' decree and as annually reported by the exempt business to the Incentives Office in the annual report required by Section 6020.10 of this Code and/or any other information return required by the Secretary of the Treasury. For the purposes of determining the number of direct full-time employees maintained by the exempt business during the taxable year, the sum of the total hours worked by all of the direct employees of the exempt business during the taxable year and the resulting amount shall be divided by two thousand eighty (2,080). The result, without considering decimals, shall be the number of direct jobs during said taxable year. For these purposes, vacation or other authorized leaves may be considered as hours worked. However, overtime in excess of 40 hours per workweek, shall not be considered. To determine the average direct jobs, the exempt business shall add the total number of direct employees in each quarter of the taxable year immediately preceding the taxable year by the sum of the total number of quarters for the immediately preceding taxable year. In the case of exempt businesses that are members of a controlled group under Section 1010.04 of the Puerto Rico Internal Revenue Code, the average number of direct employees and the number of direct jobs created shall be determined considering the aggregate number of direct jobs of all the members of the controlled group that are exempt businesses, and for purposes of clauses (A), (B), (C), and (D) of Section 6020.01(a)(3)(iv), as the case may be, the industrial development income of the exempt business, and the

amount of payments subject to the income tax set forth in paragraph (4) of subsection (b) of this Section of the exempt business shall be determined considering the aggregate industrial development income and the aggregate payments subject to the income tax set forth in paragraph (4) of subsection (b) of this Section of all the members of the controlled group that are exempt businesses. Partnerships shall be considered as corporations under Section 1010.04 of the Puerto Rico Internal Revenue Code to determine whether they are members of the same controlled group for purposes of Section 2062.01(a)(3)(iv) of this Code.

(k) Application of Section 1123(f)(4)(B) and Sections 2101 through 2106 of the Puerto Rico Internal Revenue Code of 1994, as amended.- Section 1123(f)(4)(B) and Sections 2101 through 2106 of the Puerto Rico Internal Revenue Code of 1994, any successor or similar provision of the Puerto Rico Internal Revenue Code of 2011, or any substitute or successor provision shall not apply to a member of a 'controlled group' of an Exempt Business, as defined in Section 1123(h)(3) of the Puerto Rico Internal Revenue Code of 1994, any successor or similar provision of the Puerto Rico Internal Revenue Code of 2011, or any substitute or successor provision; provided, that the Exempt Business has begun operations in Puerto Rico after December 31, 2022. Solely for purposes of this Section, an Exempt Business shall be treated as it has begun operations in Puerto Rico after December 31, 2022, only if the Exempt Business and no member of the controlled group of an Exempt Business, as defined in Section 1123(h)(3) of the Puerto Rico Internal Revenue Code of 1994, any successor or similar provision of the Puerto Rico Internal Revenue Code of 2011, or any substitute or successor provision, engaged in commercial operations in Puerto Rico at any time during the three (3) year period ending on December 31, 2022, or (b) the Exempt Business was not a member of the controlled group of an Exempt Business, as defined in Section 1123(h)(3) of the Puerto Rico Internal Revenue Code of 1994, any successor or

similar provision of the Puerto Rico Internal Revenue Code of 2011, or any substitute or successor provision, at any time during the three-year period ending on December 31, 2022.

(1) Other Rules.- In addition, any transaction or series of transactions the main purpose of which is to avoid this section, including, but not limited to, the organization or use of corporations, partnerships, or other entities, the use of shareholder representative agreements (including facilitation agreements), or the use of any other plan or agreement shall be rendered ineffective, and the use of charges for personal property and services other than charges that would arise between uncontrolled persons operating at arm's length, shall also be rendered ineffective.

Section 21.- Section 2073.01 of Act No. 60-2019, as amended, is hereby amended to read as follows:

“Section 2073.01.- Requirements for Decree Applications.

(a) ...

(b) Any person may apply for the benefits of this Chapter insofar as said person meets the eligibility requirements of Subchapter A of this Chapter as well as any other criteria prescribed by the Secretary of the DEDC through the Incentives Regulations, administrative order, circular letter, or any other general communication, including as evaluation criteria, the Eligible Business' contribution to the economic development of Puerto Rico. The criteria to be used shall be the following governing principles:

(1) ...

(3) Commitment to Economic Activity. - The Exempt Business shall acquire raw materials and Products Manufactured in Puerto Rico for the construction, maintenance, renovation, or extension of the physical facilities thereof. If the purchase of said products is not financially justified when taking into account criteria such as quality, quantity, price, and availability of these products in Puerto

Rico, the Secretary of the DEDC may waive compliance with this requirement and issue a specific dispensation for such purposes.

(4) Commitment to Agriculture. - The Exempt Business shall acquire agricultural products from Puerto Rico to be used in its operations. If the purchase of such products cannot be financially justified when taking into account criteria such as the quality, quantity, price, or availability of these products in Puerto Rico, the Secretary of DEDC may waive compliance with this requirement and issue a specific dispensation for such purposes.

(5) Transfer of Knowledge. - The Exempt Business shall acquire services from professionals or companies with a presence in Puerto Rico. However, if this is not possible due to criteria such as availability, experience, specificity, or skill or any other valid reason recognized by the Secretary of the DEDC, the Exempt Business may acquire such services through an intermediary with a presence in Puerto Rico, which shall contract directly with the service provider chosen by the Exempt Business, in order to receive the requested services.

The term 'services' shall mean...

(6) Financial Commitment. - The Exempt Business shall show proof that they use the services of, and that they deposit a substantial amount of the income derived from their economic activity in, banking and/or cooperative institutions with a presence in Puerto Rico. If the exempt business deposits ten (10) percent of the funds from its incentivized economic activity in banking institutions or cooperatives with a presence in Puerto Rico, such funds shall be deemed to be substantial income; therefore, the exempt business shall be deemed to be compliant with this Act.

(7) ...

(8) The Secretary of the DEDC, through a Compliance Professional, shall be the official responsible for verifying and ensuring that Exempt Businesses meet the eligibility requirements provided in this Section and in this Chapter in

relation to the eligible activities described in paragraphs (6), (7), (8), (9), and (10) of Section 2071.01 of this Code; provided, that for such cases related to the eligible activities described in paragraphs (1), (2), (3), (4), and (5) of Section 2071.01 of this Code, the Secretary of the DEDC shall proceed in consultation with the Secretary of Housing. If the Exempt Business partially meets the requirements established in this Section, the Secretary of the DEDC shall be required to establish a formula that allows for the quantification of the aforementioned factors, and for the subtraction of the requirement that has not been met from the total percentage of the specific incentive, in order to obtain the exact percentage of the benefit in question.

(c) The requirements established in Sections 2073.02 through 2073.08 shall be in addition to those provided in this Section for each type of eligible business.”

Section 22.- Paragraph 4 is hereby amended and a paragraph 8 is hereby added to subsection (a) of Section 3000.02 of Act No. 60-2019, as amended, known as the “Puerto Rico Incentives Code,” to read as follows:

“Section 3000.02.- Additional Rules for the Award, Sale, and Transfer of Tax Credits.

1. ...

...

4. Tax credits may be carried over until they are exhausted, subject to the provisions of subsection (h) of Section 1051.16 of the Puerto Rico Internal Revenue Code, if applicable. However, the Secretary of the DEDC shall be authorized to limit such credit carryover through the Incentives Regulations.

...

8. Any Tax Credit granted under this Code or Prior Incentives Laws that complies with the definition provided in subsection (b)(1) of Section 1051.16 of the

Internal Revenue Code shall be subject to the provisions of subsection (d) of such Section.”

Section 23.- Paragraph (3) is hereby added to subsection (a) of Section 3010.01 of Act No. 60-2019, as amended, known as the “Puerto Rico Incentives Code,” in order to read as follows:

“(a) Tax credit for tourist investment. - ...

(1) ...

(3) Credit Carryover. - The tax credit for tourist investment not used in a taxable year may be carried over to subsequent taxable years, until it is exhausted, pursuant to the provisions of subsection (h) of Section 1051.16 of the Puerto Rico Internal Revenue Code, if applicable.

(b) ...”

Section 24.- Paragraphs (3) and (4) are hereby amended and paragraph (6) is hereby added to subsection (a) of Section 3020.01 of Act No. 60-2019, as amended, known as the “Puerto Rico Incentives Code,” in order to read as follows:

“Section 3020.01.- Tax Credits for Entities Engaged in Manufacture.

(a) Tax credit for the purchase of products manufactured in Puerto Rico.

(1) ...

(3) Any Exempt Business interested in claiming a tax credit under the provisions of this Section, shall request a certificate issued annually by the DEDC certifying eligible purchases and the amount of the Tax Credit generated by the Exempt Business under this Section.

(4) Notwithstanding the provisions of subsection (a)(6) of Section 3000.02, tax credits granted under this Section shall be non-transferrable, except in the case of an exempt reorganization. The amount of the tax credit not used by an exempt business for a taxable year may be carried over to subsequent taxable years, until it is exhausted, subject to the provisions of subsection (h) of Section 1051.16

of the Puerto Rico Internal Revenue Code, if applicable. This credit shall not generate a refund.

(5) ...

(6) Notwithstanding the provisions in paragraph (2) of subsection (a) of Section 3000.02 in the case of an Exempt Business whose Decree has been granted under a Prior Incentives Law, any balance of a credit generated under the provisions of a prior law, and carried over to subsequent taxable years shall be subject to the use limitation provided under the Prior Incentives Law through which the tax credit was generated.”

Section 25.- Paragraph (2) and paragraph (4) are hereby amended and a subparagraph (i) is hereby added to subsection (a) of Section 3030.01 of Act No. 60-2019, as amended, known as the “Puerto Rico Incentives Code,” to read as follows:

“Section 3030.01.- Tax Credit for Science and Technology.

(a) Tax Credit for Investment in Research and Development.

(1) ...

(2) Any Exempt Business interested in claiming a Tax Credit under the provisions of this subsection, shall request a certificate issued annually by the DEDC certifying that the research and development activities carried out in Puerto Rico are eligible for applying for the Tax Credit provided in paragraph (1) of this subsection. If the Secretary of the DEDC decides not to extend the period provided herein, evaluating on a case-by-case basis, taking into account the best economic and social interests of Puerto Rico, the request for said certificate shall be submitted on or before the due date for filing the income tax return for the Taxable Year in which the Eligible Investment was made, as provided in the Puerto Rico Internal Revenue Code, including any extension granted by the Secretary of the Treasury for the filing thereof. The certification shall include the amount of the Special Eligible Investment, which shall be duly supported upon the filing of Agreed Upon

Procedures prepared by a Certified Public Accountant holding a valid license in Puerto Rico, and the amount of the Tax Credit granted for each Taxable Year.

(3) ...

(4) Use of Tax Credit. - Except as otherwise provided in subparagraph (i), the Tax Credit to be granted may be taken in two (2) or more installments: fifty percent (50%) of the Tax Credit may be taken in the Taxable Year in which the Special Eligible Investment is made and the balance in subsequent years until it is exhausted, subject to the provisions of subsection (h) of Section 1051.16 of the Puerto Rico Internal Revenue Code, if applicable.

(i) The Tax Credit granted under this subsection as a result of the Special Eligible Investment made in Puerto Rico for taxable years beginning after December 31, 2021 may be taken in two (2) or more installments: up to fifty percent (50%) of the Tax Credit may be taken in the Taxable Year in which the certificate provided in paragraph (2) of this Subsection is issued and the credit balance in subsequent years until it is exhausted, subject to the provisions of subsection (h) of Section 1051.16 of the Puerto Rico Internal Revenue Code, if applicable. Provided, that said credit may be applied to the income tax determined in a non-delinquent income tax return, including any extension, as of the date of issue of the certificate.

(5) ...”

Section 26.- Paragraph (2) of subsection (c) of Section 3050.01 of Act No. 60-2019, as amended, known as the “Puerto Rico Incentives Code,” is hereby amended to read as follows:

“Section 3050.01- Tax Credit for Creative Industries.

(a) Granting of Tax Credit.- ...

(c) Amount of Tax Credit.-

(1) ...

(2) In the case of Film Projects, the Tax Credit approved may be used in two (2) or more installments. Fifty percent (50%) of the Tax Credit may be used in the Taxable Year during which the activities covered by the Decree begin, subject to the posting of a Bond acceptable to the Secretary of the DEDC or Auditor's Certification as provided in subsection (d) of this Section, and the Tax Credit balance in subsequent years, subject to the provisions of subsection (h) of Section 1051.16 of the Puerto Rico Internal Revenue Code, if applicable.

(3) ...”

Section 27.- Subsection (b) of Section 5010.01 of Act No. 60-2019, as amended, known as the “Puerto Rico Incentives Code,” is hereby amended to read as follows:

“Section 5010.01.- Economic Incentives Fund.

(a) ...

(b) In the account denominated as Economic Incentives Fund, the Secretary shall deposit ten percent (10%) of the revenues collected from the income tax paid by all Exempt Businesses holding a Decree under this Code or prior incentives laws as well as the amounts collected from the taxes withheld on account of royalties related to the exempt operations under this Code or Prior Incentives Laws, and any other appropriation for these purposes. The amount to be deposited in the account denominated as Economic Incentives Fund shall not exceed one hundred twenty-five million dollars (\$125,000,000) in any fiscal year.”

Section 28.- Section 6011.04 of Act No. 60-2019, as amended, is hereby amended to read as follows:

“Section 6011.04.- Certificate of Compliance, Compliance Professional, and Investigation of Decree Holders.

(a) The Secretary of the DEDC shall oversee the operations of every decree holder in order to evaluate and ensure that the activities of a Decree Holder comply

with the terms of the Decree and issue a Certificate of Compliance. Every Decree Holder shall file any report and submit any other information required by the Secretary of the DEDC, from time to time, with regard to any Decree.

(b) The Secretary of the DEDC may examine any books, papers, records, or memoranda related to the object of the Decree, and shall have authority to summon witnesses and take declarations with regard to the alleged facts or otherwise related to the requested Decree, administer oaths to any person declaring before him, and to file a report on the evidence presented, together with his recommendations concerning the case.

(c) Certificate of Compliance.

(1) The Certificate of Compliance shall be the only legal document that shall validate that a natural or juridical person meets the requirements specified in this Act and those provided in the decree, which grants the holder certain privileges, and is therefore entitled to the tax incentive or benefit in question.

(2) The Certificate of Compliance shall be valid for two (2) years and be in effect and appear in the Portal in order for the granting of the tax incentive benefit, making any amendment to such incentive, and keeping said incentive. Failure to hold a Certificate of Compliance shall entail the immediate suspension of the decree, until all requirements are met and the certificate is issued, otherwise, the decree shall be revoked.

(3) The Certificate of Compliance shall specifically state the provision of this Act under which the incentive or benefit is granted, the nature of the incentive or benefit, any modification regarding the amount of the incentive or benefit in question, any pertinent information, reflecting the result of the impact of the incentivized activity in Puerto Rico's economy (for example: the income subject to tax exemption, if any, the investment, and the number of jobs created), allowing to obtain information for analysis and statistical purposes, and the signature of the

Compliance Professional certifying that all the information is correct and that the natural or juridical person meets all the requirements set forth in the Act.

In order to be valid, the Certificate shall also include, at least, the following information:

(i) the name of the natural or juridical person, or of the exempt business in question;

(ii) a note stating whether the tax incentive or benefit is awarded for the first time, if it is an amendment to the tax incentive or benefit, or if it is to allow the holder to keep the same, including whether or not the conditions that prevent the revocation of a tax credit are still met;

(iii) the cadaster number of the property or properties connected to the business;

(iv) the merchant registration number;

(v) the account connected to the business, as required in the Puerto Rico Internal Revenue Code;

(vi) the Employer Identification Number; and

(vii) the information required under Act No. 216-2014, better known as the 'Fiscal Information and Permit Control Act.'

The Certificate of Compliance shall not contain specific information, other than the information specified herein, which may violate the confidentiality provisions of any laws governing tax decrees.

(d) Compliance Professional.

In order to comply with the provision of this Section, the Secretary of the DEDC shall prescribe by regulations the parameters to be met by the Compliance Professional.

The Compliance Professional shall be a certified public accountant or an attorney-at-law duly licensed to practice in Puerto Rico.”

Section 29.- Section 6011.07 of Act No. 60-2019, as amended, is hereby amended to read as follows:

“Section 6011.07.- Procedures.

(a) Applications Before the Incentives Office and Certifications before the Compliance Professional.

(1) ...

(2) ...

(3) Every Decree issued pursuant to the provisions of this Code shall be subject to full compliance with the provisions of this Code, and the applicable regulations, circular letters, or determinations, as well as the conditions established in the decree in question. Every two (2) years after the issuance of a Decree, the Compliance Professional shall evaluate the operations of the Decree Holder to confirm the information furnished by such Decree Holder; ascertain compliance with the conditions established in the decree and upon a determination of compliance, issue the Certificate of Compliance; and recommend the imposition of fines or penalties in the event of noncompliance, as well as to suspend, revoke, or void the Decree, as deemed appropriate by the Secretary of the DEDC.

(b) ...”

Section 30.- Section 6011.08 of Act No. 60-2019, as amended, is hereby amended to read as follows:

“Section 6011.08.- Annual Incentives Report.

(a) Every year, but not later than September 30 of each year, the DEDC shall publish on its website, readily accessible to the public, an annual report, known as the Incentives Report, on all of the incentives requested and granted by virtue of this Code or any Prior Incentives Laws. The report shall contain at least the following information:

(1) ...

(8) An estimate of the Return on Investment of each incentive program included in this Code based on a formula that incorporates the following factors:

(i) ...

(iv) Local purchases, including the purchase of Products Manufactured in Puerto Rico and agricultural products from Puerto Rico;

(v) An analysis of the benefits attributable to incremental economic activity not redundant to sustainable economic activity by local aggregate demand in connection with the transfer of knowledge, financial commitment with local banks and/or cooperatives, among others.

(9) The Secretary of the DEDC shall make available to the public the report and shall explain in detail the conclusions and recommendations included therein.

(b) The Secretary of the DEDC shall file a report with the Legislative Assembly, the Puerto Rico Fiscal Agency and Financial Advisory Authority, the Permit Management Office, and the Department of the Treasury on January 31<sup>st</sup> and on July 31<sup>st</sup> of each year containing the information listed in subsection (a) of this Section and detailing the tax credits granted under each Chapter of this Code for review and dissemination through their websites.”

Section 31.- Section 6020.01 of Act No. 60-2019, as amended, is hereby amended to read as follows:

“Section 6020.01- Application for Incentives

(a) ...

(i) Compliance with the Terms of the Decrees.

(1) Every two (2) years, a Compliance Professional shall ascertain whether the decree holders comply with the conditions of the decree. If the requirements are met, the Compliance Professional shall issue a Certificate of

Compliance, which, once filed with the DEDC, shall allow the decree holder to continue enjoying the decree benefits for the following two (2) years. If the conditions of the decree are not met, the Compliance Professional shall not issue the certificate and shall notify the Secretary of the DEDC in order for the granted benefits to be suspended until the conditions set forth in the decree are met. The Incentives Regulations shall provide mechanisms to ensure compliance with the terms and conditions of the Decrees as well as the penalties to be imposed in the event of noncompliance.

(2) The Secretary of the DEDC shall take into account a Decree Holder's compliance with the terms and conditions of a Decree when renegotiating or approving an amendment thereto. If the Decree Holder is not compliant with the terms and conditions of the Decree, he shall not be considered until the noncompliance is cured, the certificate of exemption is obtained and, in the judgment of the Secretary of the DEDC, the pertinent penalties and sanctions provided in the Incentives Regulations are satisfied.

...

(j) ...”

Section 32.- Paragraph (2) of subsection (a) is hereby amended and a new subsection (c) is hereby added to Section 6020.09 of Act No. 60-2019, as amended, to read as follows:

“Section 6020.09- Allowable and Mandatory Revocation Procedure.

(a) Insofar as the Secretary of the DEDC has delegated this function, the Incentives Director may suspend the effectiveness and benefits of any Decree for a determined period or he may revoke any permanent Decree in any of the following cases:

(1) ...

(2) Mandatory Revocation.

(i) The Secretary of the DEDC shall revoke any Decree granted if the Eligible Business does not hold a valid Certificate of Compliance and the Eligible Business has been allowed a reasonable period to obtain the same.

(ii) ...

(b) ...”

Section 33.- Paragraphs (1), (3), and (4) of subsection (a) are hereby amended, current section (b) is hereby eliminated and replaced, and subsection (d) of Section 6020.10 of Act No. 60-2019, as amended, is hereby amended to read as follows:

“Section 6020.10.- Reports.

(a) Reports Required from Exempt Businesses and their Stockholders:

(1) ...

(4) Every Exempt Business holding a Decree under this Code shall annually file electronically with the Incentives Office a compliance report not later than thirty (30) days from the due date prescribed by law for the filing of the corresponding income tax return, including any extensions granted for such a purpose.

(i) Said report shall contain an account of data ascertaining compliance with the conditions established in the Decree during the Taxable Year immediately preceding the filing date, in accordance with the nature of the Exempt Business and the eligible activities it carries out, including, but not limited to, the following: average employment, products manufactured or services rendered, raw material or manufactured products acquired in Puerto Rico, professional, consulting, security and/or maintenance services from professionals or companies with a presence in Puerto Rico, banking activity through institutions with a presence in Puerto Rico, everything that foregoing represents in terms of economic activity, as well as any information or documentation that may be required in the form to be

adopted for such purposes, or as required by regulations, circular letter, or administrative order.

(ii) This report shall enclose the fees prescribed by Regulations which shall be paid by electronic transfer through the online Portal in the form and manner established by the Incentives Office for such purposes. The information furnished in this annual report shall be used for statistical purposes and economic studies, as well as for the evaluation to be conducted by the Compliance Professional every two (2) years in order to grant or deny the pertinent Certificate of Compliance.

(iii) ...

(b) ...”

Section 34.- A new Section 6020.01A is hereby added to Act No. 60-2019, as amended, known as the “Puerto Rico Incentives Code,” to read as follows:

“Section 6020.01A.- Interagency Consideration of Application for Amendment pursuant to Section 2062.01(a)(3) and (b)(4) of this Code.- Once the Incentives Office or the successor thereof receives an application for amendment of Decree subject to the income tax rates established in subsections (a)(3) and (b)(4) of Section 2062.01 of this Code, the Incentives Director shall notify the Secretary of the Treasury with a copy of the application for amendment of Decree within five (5) days from the filing date thereof. When evaluating an application for amendment of Decree, the Secretary of the Treasury shall, among other matters, verify compliance of the shareholders or partners of the Exempt Business with their tax obligation under the Puerto Rico Internal Revenue Code. This evaluation shall not be necessary in the case of Puerto Rico non-resident shareholders or public corporations, unless such non-resident shareholders or public corporations were, or are, a member of a controlled group of the Exempt Business, as defined in Section 1123(h)(3) of the Puerto Rico Internal Revenue Code of 1994, any successor or similar provision of

the Internal Revenue Code of 2011, or any substitute or successor provision, and were, or are, subject to the rules of Section 1123(f)(4)(B) or Sections 2101 through 2106 of the Puerto Rico Internal Revenue Code of 1994, any successor or similar provision of the Internal Revenue Code of 2011, or any substitute or successor provision. The Secretary of the Treasury shall not endorse an application for amendment of Decree if said tax liabilities are not met. The Incentives Director shall issue an eligibility report and recommendations on the application for amendment of Decree and notify the Secretary of the Treasury with a draft amendment of Decree for the Secretary's evaluation and recommendation. Any unfavorable recommendation on the draft amendment of Decree shall state the reasons therefor. The Secretary of the Treasury shall file a report or recommendation on the draft amendment of Decree within ten (10) days. If the Secretary of the Treasury issues a favorable report or recommendation, or if the Incentives Office or the successor thereof, does not receive a report or recommendation within the aforementioned ten (10)-day period, the draft amendment of Decree shall be deemed to have received a favorable recommendation from the Secretary of the Treasury, and the Secretary of the Department of Economic Development and Commerce of Puerto Rico shall make a final determination in writing on the application for amendment."

Section 35.- Section 6060.05 of Act No. 60-2019, as amended, is hereby amended to read as follows:

"Section 6060.05.- Housing Market Boost Program's Transition Act.

(a) ...

(b) The benefits provided in Act No. 216-2011, as amended, known as the 'Housing Market Boost Program's Transition Act,' which is incorporated into this Code, shall be effective through December 31, 2030. Notwithstanding the foregoing, the benefits provided in Sections 5(a) and 5(b) may not be enjoyed after December 31, 2025, regardless of date on which they were requested.

(c) The benefits provided under the Housing Market Boost Program, originally created under Act No. 216-2011, as amended, known as the ‘Housing Market Boost Program’s Transition Act,’ shall not be applicable nor recognized for properties acquired for a purchase price exceeding three hundred thousand dollars (\$300,000.00).”

Section 36.- Paragraph (2) of subsection (i) of Section 6070.56 of Act No. 60-2019, as amended, known the “Puerto Rico Incentives Code,” is hereby amended to read as follows:

“Section 6070.56.- Income Tax Applicable to Opportunity Zones.

(a) ...

(i) Credits. -

(1) Investment Credit. - ...

(2) Credit Carryover. - Every industrial development credit that is not used in a taxable year may be carried over to subsequent taxable years until it is exhausted, subject to the provisions of subsection (h) of Section 1051.16 of the Internal Revenue Code, if applicable.

(3) ...”

Section 37.- Section 6070.62 of Act No. 60-2019, as amended, is hereby amended to read as follows:

“Section 6070.62- Allowable and Mandatory Revocation Applicable to Opportunity Zones.

(a) ...

(b) Mandatory Revocation. -

(1) The Secretary of the DEDC shall revoke any Decree granted under this Chapter when the Exempt business does not hold a valid Certificate of Compliance and the Decree Holder has been allowed a reasonable period to obtain the same.

- (2) ...
- (3) ...
- (4) ...
- (c) ...”

Section 38.- Section 6070.66 of Act No. 60-2019, as amended, is hereby amended to read as follows:

“Section 6070.66.- Reports Required from Exempt Businesses and Their Stockholders or Partners Applicable to Opportunity Zones.

- (a) ...

(d) Every exempt business shall file annually with the Tax Exemption Office, with a copy to the Secretary, not later than thirty (30) days from the deadline prescribed by law for filing the corresponding income tax return, including any extensions granted for such purposes, a report authenticated with the signature of the President, managing partner, or his authorized representative. Said report shall include an account of data ascertaining compliance with the conditions established in the decree, including, but not limited to, the following: average employment, products manufactured or services rendered, raw material or manufactured products acquired in Puerto Rico, professional, consulting, security and/or maintenance services from professionals or companies with a presence in Puerto Rico, the banking activity through institutions with a presence in Puerto Rico, everything that the foregoing represents in terms of economic activity, as well as any information that may be required in the form to be adopted for such purpose, or as required by Regulations. This report shall enclose the fees prescribed by Regulations which shall be paid by postal money order or cashier's or certified check, or electronically to the order of the Secretary of the Treasury. The information furnished in this annual report shall be used for statistical purposes and economic studies, as well as for the

evaluation to be conducted by the Compliance Professional every two (2) years in order to grant or deny the pertinent Certificate of Compliance.

(e) ...”

Section 39.- Paragraph (4) of subsection (b) of Section 2101 of Act No. 120-1994, as amended, known as the “Puerto Rico Internal Revenue Code of 1994,” is hereby amended to read as follows:

“Section 2101. Imposition of Excise Tax on Certain Personal Property and Services

(a) ...

(b) ...

(1) ...

(2) ...

(3) ...

(4) Applicable Percentage. For purposes of Subsection (a)(1), the applicable percentage shall be:

(A) for periods beginning after December 31, 2010 and ending on or before December 31, 2011, four (4) percent;

(B) for periods beginning after December 31, 2011 and ending on or before December 31, 2012, three and three quarters (3.75) percent;

(C) for periods beginning after December 31, 2012 and ending on or before June 30, 2013, two and three quarters (2.75) percent;

(D) for periods beginning after June 30, 2013, four (4) percent.”

Section 40.- Section 2106 of Act No. 120-1994, as amended, known as the “Puerto Rico Internal Revenue Code of 1994,” is hereby amended to read as follows:

“Section 2106.- Regulations.

(a) ...

(b) Credits. - The regulations may provide for credits that may be used by a person subject to the excise tax imposed by Section 2101. Such credits may include credits for or to:

(1) ...

(2) ...

...

(7) Persons that are members of a controlled group contributing to the Puerto Rico Science, Technology, and Research Trust Fund or increasing, in the aggregate, research and development activities in Puerto Rico.

Notwithstanding the foregoing, for taxable years beginning after December 31, 2022, every controlled group subject to the excise tax established in Section 2101 of the Internal Revenue Code of 1994, as amended, or in any other substitute or successor provision, that has more than one member as of June 30, 2022, conducting manufacturing and production operations, or manufacturing services in facilities located in Puerto Rico, and operating, as a group, in four (4) or more municipalities as of June 30, 2022, may claim an eight million dollar (\$8,000,000) credit for each one of the operations conducted by said controlled group in said municipalities; provided, that the maximum credit amount allowed with respect to said controlled group shall be thirty-two million dollars (\$32,000,000) per year. In the case of a controlled group subject to pay the excise tax under Section 2101 of the Puerto Rico Internal Revenue Code of 1994, as amended, or under any substitute or successor provision, the application of this credit may not reduce said excise tax to less than five hundred thousand dollars (\$500,000) for each municipality with respect to which this credit is claimed.

...”

Section 41.- Section 1010.01 of Act No. 1-2011, as amended, known as the “Internal Revenue Code for a New Puerto Rico,” is hereby amended to read as follows:

“Section 1010.01.- Definitions.

(a) As used in this Subtitle, insofar as they are not incompatible with the purposes thereof:

(1) Person. - ...

(2) ...

(3) Limited Liability Company. - The term ‘limited liability company’ means those entities organized under Chapter XIX of Act No. 164 of December 16, 2009, as amended, known as the ‘General Corporations Act,’ including those commonly denominated series limited liability companies. The term ‘limited liability company’ also refers to those entities organized under similar laws of any state of the United States of America or foreign country. For the purposes of this Subtitle, limited liability companies shall be subject to taxation in the same manner and form as corporations; provided, however, that they may elect to be treated as partnerships for tax purposes under the rules applicable to partnerships and partners contained in Chapter 7 of this Subtitle, even when the company has only one member for taxable years beginning before January 1, 2022, and as a Pass-through Entities subject to the applicable rules contained in Subchapter H of Chapter 7 of this Subtitle, or as Disregarded Entities, when they have only one member who is a resident individual, for taxable years beginning after December 31, 2021.

The Secretary shall prescribe by regulations, the form and manner of making such election, which shall be filed on or before the due date for filing the income tax return for the year of the election, including extensions.

(A) Exception.- Any foreign limited liability company that, by reason of an election or provision of law or regulation under the Federal Internal

Revenue Code of 1986, Title 26 of the United States Code, as amended, or similar provision of a foreign country, is treated as a partnership or as a disregarded entity, whose revenues and expenses are attributable to its members for federal or foreign country income tax purposes, shall be treated as a partnership for purposes of this Subtitle, subject to the provisions of Chapter 7 for taxable years beginning after December 31, 2022, and as a Pass-through Entity subject to Subchapter H of Chapter 7 of this Subtitle, and as a Disregarded Entity, when it has only one member for taxable years beginning after December 31, 2022, and shall not be eligible to pay taxes as a corporation.

(B) ...

(C) If a corporation is converted to a limited liability company under the provisions of Section 19.16 of Act No. 164-2009, as amended, or pursuant to a similar provision of a successor law or the law of the foreign jurisdiction in which it was organized, the entity may elect that the option to be taxed as a partnership, for taxable years beginning after December 31, 2022, and as a Pass-through Entity or a Disregarded Entity, when it has one single shareholder for taxable years beginning after December 31, 2022, be carried back to the preceding taxable year, if at the time of the conversion, the due date for filing the income tax return for said year, including extensions, has not expired. None of the provisions herein shall be construed as if such conversion is a reorganization, as such term is defined in subsection (g) of Section 1034.04.

(40) Trade or Business. - As used in Sections 1062.08, 1062.11, 1091.01, and 1092.01, the term 'engaged in trade or business in Puerto Rico,' includes the rendering of services in Puerto Rico at any time during the taxable year, but does not include:

...

(C) Subparagraphs (A)(i) and (B)(i) shall apply only if the taxpayer, at no time during the taxable year, has an office or other fixed place of business in Puerto Rico through which, or by the direction of which the transactions in stocks or securities, or in commodities are effected, as the case may be.

(D) Trade or Business with Remote Employees in Puerto Rico. For taxable years beginning after December 31, 2021, maintaining employees in Puerto Rico, only if:

(I) At no time during the taxable year, the taxpayer has an office or other fixed place of business in Puerto Rico;

(II) At no time has an economic nexus with Puerto Rico;

(III) Is not considered a retailer in accordance with Section 4010.01 of the Code;

(IV) The remote employee is not an officer, director, or a majority shareholder of the taxpayer;

(V) The services rendered by said employees are for the benefit of clients or businesses of the taxpayer having no nexus with Puerto Rico; and

(VI) The taxpayer reports the income paid to the Remote Employee in a Federal W-2 form or a 499R-2/W-2PR form.

(ii) Allowing employees to perform remote work from Puerto Rico shall not be considered an economic nexus with Puerto Rico, even when:

(I) The office in the home of the remote employee is necessary for the job or is a condition therefor;

(II) There is a business purpose in allowing the use of the employee's home as his office;

(III) The employee is required to perform certain basic job duties from an employer's location; and

(IV) Some of the expenses incurred by the remote employee for having the office in his home are reimbursed by the employer.

...

(41) Disregarded Entity. - An entity that is disregarded as an entity separate from its owner only for the computation of the income tax provided in Subtitle A of this Code.

(i) The owner of a Disregarded Entity shall recognize its activity in its income tax return as if the entity did not exist. However, a Disregarded Entity shall comply with the provisions of Subchapter B and C of Chapter 6 of this Subtitle, as well as any other provision not related to the computation of the income tax of the economic activity that it carries out.

(ii) For the purposes of this election, spouses with community property shall be considered a single owner.

(iii) None of the provisions herein may be construed as to affect the tax obligation or treatment of a Disregarded Entity for the purposes of the Property Tax and the Municipal License Tax provided in Book VII of Act No. 107-2020, as amended, known as the 'Municipal Code.'

(I) The Department of the Treasury shall require as part of a Disregarded Entity owner's return, an itemization of the volume of sales of each Disregarded Entity.

(iv) The Disregarded Entity tax treatment shall be available for taxable years beginning after December 31, 2021.

(v) Disregarded Entities shall be subject to the rules provided in Subchapter H of Chapter 7 of this Subtitle.

(42) Remote Employee: An individual who performs services as an employee for the benefit of a nonresident person.

(i) For these purposes, the term 'nonresident person' includes:

(I) an individual that is not a Resident of Puerto Rico;  
or

(II) a trust whose beneficiaries, trustees, and grantors are not Residents of Puerto Rico; or

(III) an estate the grantor, heirs, legatees, or executors of which are not, or in the case of the deceased person, has been residents of Puerto Rico; or

(IV) a foreign entity.

(ii) For these purposes, the term 'services' only includes services that have no nexus with Puerto Rico rendered to an employer that complies with the provisions of Section 1010.01(a)(40)(D) of the Code.

(43) Pass-through Entity: An entity organized under Act No. 164 of December 16, 2009, as amended, known as the 'General Corporations Act' or

entities organized under similar laws of any state of the United States of America or foreign country whose income and expenditures are attributable to its owners, partners, or members for income tax purposes.

(i) Every corporation, partnership, or limited liability company may elect to pay taxes as a Pass-through Entity even if they only have a single owner.

(ii) Pass-through Entities shall be subject to the rules provided in Subchapter H of Chapter 7 of this Subtitle.

(b) ...”

Section 42.- Subsection (b) of Section 1010.03 of Act No. 1-2011, as amended, known as the “Internal Revenue Code for a New Puerto Rico,” is hereby amended to read as follows:

“Section 1010.03.- Classification of Individual Taxpayers—Determination of Filing Status.

(a) ...

(b) For the purposes of determining the filing status of an individual for a taxable year, such determination shall be made at the close of his taxable year; provided, that in the case one of the spouses dies during such taxable year, such determination shall be made as of the date of death, for taxable years beginning before January 1, 2023. Provided, that for taxable years beginning after December 31, 2022, taxpayers whose spouse dies during the taxable year shall be treated as Married individuals throughout the taxable year, unless the surviving spouse remarries during the same taxable year.”

Section 43.- Subsection (b) of Section 1021.06 of Act No. 1-2011, as amended, known as the “Puerto Rico Internal Revenue Code of 2011,” is hereby amended to read as follows:

“Section 1021.06.- Optional Tax for Self-Employed Individuals.

(a) ...

(b) The individual may elect to avail himself of the tax provided in subsection (a) of this Section, in lieu of any other tax provided in this Subtitle; provided, that the following requirements are met:

(1) ...

(2) ...

(3) For taxable year beginning after December 31, 2018 and before January 1, 2020, and for taxable years beginning after December 31, 2021, the individual may elect the optional tax provided in this Section regardless of having a tax balance to be paid along with his income tax return, provided, that such balance is paid in full not later than the due date for filing the income tax return, without taking into account an extension request.

(c) ...

...”

Section 44.- Subsection (g) of Section 1022.03 of Act No. 1-2011, as amended, known as the “Puerto Rico Internal Revenue Code of 2011,” is hereby amended to read as follows:

“Section 1022.03.- Alternative Minimum Tax Applicable to Corporations.

(a) ...

...

(g) Tentative Minimum Tax. - For taxable years beginning after December 31, 2018, the term ‘tentative minimum tax’ for the taxable year shall be the greater of five hundred dollars (\$500) or eighteen point five percent (18.5%) of the excess

of the alternative minimum net income for the taxable year over the exempt amount, minus the alternative minimum credit for taxes paid abroad for the taxable year. Provided, that corporations subject to the provisions of Section 1061.15(a)(4) shall be subject to a rate of twenty-three percent (23%) in lieu of the rate established in the previous sentence.”

Section 45.- A subsection (f) is hereby added to Section 1035.03 of Act No. 1-2011, as amended, known as the “Puerto Rico Internal Revenue Code of 2011,” to read as follows:

“Section 1035.03.- Sale or Exchange of Personal Property.

(a) ...

...

(f) Exception for Capital Asset Appreciation. In case of the sale of capital assets acquired by an individual prior to becoming a resident of Puerto Rico, the portion of the gain, but not the loss, of capital related to said assets’ appreciation while the individual resided outside of Puerto Rico and until the date on which said individual became a resident of Puerto Rico, shall be considered income from sources outside of Puerto Rico.”

Section 46.- Section 1035.08 of Act No. 1-2011, as amended, known as the “Puerto Rico Internal Revenue Code of 2011,” erroneously and unintentionally repealed by Act No. 60-2019, as amended, known as the “Puerto Rico Incentives Code” is hereby reinstated to read as follows:

“Section 1035.08.- Sale of Interest in a Partnership.

(a) In the case of sales of interest in partnerships occurring after December 31, 2018, any earnings, profits, or income derived from the sale of interest in a partnership generating income from sources within Puerto Rico shall constitute income from sources within Puerto Rico to the extent the partnership would have generated income from sources within Puerto Rico if it had sold all capital assets of

the partnership at market value, notwithstanding the residency of the partner selling the interest and notwithstanding the provisions of paragraph (3) of subsection (a) of Section 1035.03. In the event the selling partner is a nonresident individual or an entity not engaged in trade or business in Puerto Rico, the buyer shall be required to withhold at the source a fifteen percent (15%) tax on the portion of the earnings considered income from sources within Puerto Rico by virtue of this Section. The withholding provided in this subsection shall be made in accordance with Section 1062.08(k) of this Code. The Secretary shall prescribe by regulation, administrative determination, circular letter, or general information bulletin the requirements to determine the amount subject to taxation under this Section.

(b) Subsection (a) of this Section shall be applicable to the sale of interest in a partnership occurring after December 31, 2018, but before July 1, 2022.

(c) For the purposes of Sections 1091.02(b) and 1092.02(c)(2), any gain, earnings, or income derived by a foreign corporation or nonresident alien from the direct or indirect sale of an interest in a partnership engaged in trade or business in Puerto Rico shall constitute income actually related to the conduct of trade or business in Puerto Rico, in the amount established in subsection (b) of this Section.

(d) The amount of gain that is subject to subsection (a) of this Section is an amount equal to the distributive share of the foreign corporation or nonresident alien in the gain that the partnership would have generated, directly or indirectly, if the partnership had sold all the assets of the partnership, at market value, on the date of the sale, of the partnership interest by the foreign corporation or nonresident alien and that would constitute income actually related to the conduct of a trade or business in Puerto Rico under Section 1035.05. Only for purposes of the application of Section 1035.05, in the case of a domestic partnership, the domestic partnership shall be treated as a foreign partnership.

(e) The purchaser shall be required to withhold at the source a fifteen percent (15%) tax on the portion of the gain considered income actually related to the conduct of a trade or business in Puerto Rico by virtue of the provisions of this Section. The withholding provided in this subsection shall be made in accordance with Section 1062.08(k) of this Code. The Secretary shall prescribe by regulations, administrative determination, circular letter, or general information bulletin the requirements to determine the amount subject to taxation under this Section.

(f) The provisions of this subsection shall not apply to the direct or indirect sale of the interest in a partnership that is a Fund under Act No. 185 of November 12, 2014, as amended, or a ‘Qualified Opportunity Zone Fund,’ in accordance with Section 1400Z-2 of the United States Internal Revenue Code of 1986, as amended.

(g) Subsections (c), (d), (e), and (f) of this Section shall apply to direct or indirect sales of partnership interests occurring after June 30, 2022.”

Section 47.- Paragraph (4) of subsection (c) of Section 1040.08 of Act No. 1-2011, as amended, known as the “Puerto Rico Internal Revenue Code of 2011,” is hereby amended to read as follows:

“Section 1040.08.- Incentive Stock Option.

(a) ...

...

(c) ...

(1) ...

...

(4) In case the stock options are traded in recognized stock exchanges, the option price may not be less than the market value of the stock at the time such option is granted. In case of stock options that are not traded in recognized stock exchanges, the option price may not be less than the book value per share, determined according to the financial statements of the granting corporation for the

taxable year immediately preceding the date on which the option is granted. Said financial statements shall be prepared in accordance with generally accepted accounting principles. Provided, that this paragraph shall not apply in the case of options for the purchase of stock that are traded in recognized stock exchanges offered to employees under an Employee Stock Purchase Plan or ESPP established and operated in accordance with Section 423 of the U.S. Internal Revenue Code. In these cases, the price of options offered under an ESPP may be less than the market value of the stock at the time such option is granted or exercised, up to the maximum allowed under Section 423(b) of the U.S. Internal Revenue Code.”

Section 48.- Section 1051.01 of Act No. 1-2011, as amended, known as the “Internal Revenue Code for a New Puerto Rico,” is hereby amended to read as follows:

“Section 1051.01.- Taxes of the United States, Possessions of the United States, and Foreign Countries.

(a) Allowance of Credit. - If the taxpayer elects to avail himself of the benefits of this Section, the tax imposed by this Subtitle, except the tax imposed under Section 1022.05 of this Subtitle, shall be credited to:

(1) Citizens and Domestic Corporations. - In the case of a United States citizen who is a resident of Puerto Rico, and of a domestic corporation or partnership, the amount of any income tax, and excess-profits paid or accrued during the taxable year to the United States, any possession of the United States, any foreign country, or any state of the United States; and ...

(2) Alien Resident of Puerto Rico. - In the case of an alien who is a resident of Puerto Rico, the amount of any such taxes paid or accrued during the taxable year to the United States, or any possession of the United States or any state of the United States, and to any foreign country, if the foreign country of which such

alien resident is a citizen or subject, in imposing such taxes, allows a similar credit to citizens of the United States residing in such country; and

(5) Remote Employee. - In case of an individual considered a Remote Employee under Section 1010.01(a)(43) of the Code, the amount of any income tax, and excess benefits paid or accumulated during the taxable year to any possession of the United States or any state of the United States for services rendered to an employer that complies with the provisions of Section 1010.01(a)(40)(D) of the Code. The Secretary of the Treasury shall establish regulations as are necessary so that this credit is limited only to the states and territories of the United States whose source of income rule in the case of wages is based on the employer's residency or place of business.

...

(b) ...”

Section 49.- The credit allowed under Section 1051.04 of Act No. 1-2011, as amended, known as the “Puerto Rico Internal Revenue Code of 2011,” is hereby repealed and said Section is hereby Reserved.

“Section 1051.04.- Reserved.”

Section 50.- Subsection (a) of Section 1051.05 of Act No. 1-2011, as amended, known as the “Puerto Rico Internal Revenue Code of 2011,” is hereby amended to read as follows:

“Section 1051.05.- Investment Increase Credit.

(a) For taxable years beginning before January 1, 2018, the tax imposed by this Subtitle on the dividends derived from industrial development income received by corporations organized under the laws of any state of the United States engaged in trade or business in Puerto Rico shall be credited by three percent (3%) of the investment made by the subsidiary before January 1, 1993, in the acquisition, construction, and enlargement of buildings and other structures used in the

manufacture in excess of the investment in such properties possessed by the subsidiary as of March 31, 1977. In the case of corporations which have not enjoyed tax exemption under Act No. 73-2008, known as the 'Economic Incentives Act for the Development of Puerto Rico,' or any other preceding similar law, and any other law that substitutes or supplements it, for two (2) taxable years, this credit shall be allowed to the parent corporation for the increase in investments made by the subsidiary after the termination of its second year of tax exemption. This credit may be carried over to subsequent taxable years, subject to the provisions of subsection (h) of Section 1051.16 of this Code."

Section 51.- The credit allowed under Section 1051.06 of Act No. 1-2011, as amended, known as the "Puerto Rico Internal Revenue Code of 2011," is hereby repealed and said Section is hereby Reserved.

"Section 1051.06.- Reserved."

Section 52.- Subsection (b) of Section 1051.07 of Act No. 1-2011, as amended, known as the "Puerto Rico Internal Revenue Code of 2011," is hereby amended to read as follows:

"Section 1051.07.- Credit for Increase in Procurements of Puerto Rican Agricultural Products.

(a) ...

(b) Limitation of Credit. - The credit provided by this Section may be used to reduce the tax imposed on the eligible business under Subtitle A up to twenty-five percent (25%). Any credit not used by the eligible business may be carried over to subsequent taxable years until it is exhausted, subject to the above limitation and the provisions of subsection (h) of Section 1051.16 of this Code.

(c) ..."

Section 53.- Subparagraph (C) of paragraph (3) of subsection (c) of Section 1051.09 of Act No. 1-2011, as amended, known as the “Puerto Rico Internal Revenue Code of 2011,” is hereby amended to read as follows:

“Section 1051.09.- Credit for Purchasing Products Manufactured in Puerto Rico.

(a) ...

...

(c)

(1) ...

(3) ...

(C) Limitation of Credit. - The credit provided by this Section may be used to reduce the tax imposed on the eligible business under Subtitle A up to twenty-five percent (25%). Any credit not used by the eligible business may be carried over to subsequent taxable years until it is exhausted, subject to the above limitation and the provisions of subsection (h) of Section 1051.16 of this Code.”

(d) ...”

Section 54.- Subsection (c) of Section 1051.10 of Act No. 1-2011, as amended, known as the “Puerto Rico Internal Revenue Code of 2011,” is hereby amended to read as follows:

“Section 1051.10.- Credit for Donations to Foundations of Former Governors.

(a) ...

...

(c) This credit shall be in lieu of the deduction for donations granted under Section 1033.15(a)(3). The amount of the credit that cannot be claimed in the taxable year in which the donation is made may be carried over to subsequent taxable years

until it is exhausted, subject to the provisions of subsection (h) of Section 1051.16 of this Code, if applicable.

(d) ...”

Section 55.- Subsection (a) of Section 1051.12 of Act No. 1-2011, as amended, known as the “Puerto Rico Internal Revenue Code of 2011,” is hereby amended to read as follows:

“Section 1051.12.- Reissue of Moratorium to Tax Credits Granted under Certain Special Laws.

(a) ...

(1) ...

...

(4) Subsection (a) of Section 17 of Act No. 183-2001, as amended, known as the ‘Puerto Rico Conservation Easement Act’; except that during fiscal years 2013-2014 through 2018-2019, the tax credits covered under the provisions of this paragraph may be granted up to the amount of ten million dollars (\$10,000,000) per year, in those cases in which the request for administrative determination was filed with the Department of the Treasury on or before June 30, 2019. For fiscal year 2019-2020 and thereafter, the tax credits covered under the provisions of this paragraph may be granted up to the amount of fifteen million dollars (\$15,000,000) per year in cases in which the request for administrative determination has been filed with the Department of the Treasury after July 1, 2019;

...

(7) Subsections (a) and (b) of Section 4 of Act No. 98-2001, as amended, known as the ‘Tax Credits for Investments in Housing Infrastructure Act.’ However, it is hereby established that for projects commenced before March 9, 2009, tax credits may be granted during fiscal years 2013-2014 through 2021-2022 up to five million dollars (\$5,000,000) per year;

...”

Section 56.- A new Section 1051.16 is hereby added to Act No. 1-2011, as amended, known as the “Puerto Rico Internal Revenue Code of 2011,” to read as follows:

“Section 1051.16.- Tax Credit Management System

(a) The Secretary is hereby authorized to create a Tax Credit Manager (TCM) as part of the Department of the Treasury’s electronic system to:

- (1) facilitate tax credit administration and oversight.
- (2) have an automated and interactive tool that allows for the administration of tax credits from the time of granting, as well as the rules of use, transfer or assignment, claim, recapture, and expiration.
- (3) facilitate information sharing between the Department of the Treasury and other agencies of the Government of Puerto Rico.
- (4) facilitate the preparation of reports required to the Department of the Treasury by other government agencies in relation to the tax credits’ fiscal impact.
- (5) provide data for the periodic review of the performance indicators of each tax credit.

(b) Definitions – For the purposes of this Section, the following terms shall have the meaning stated below:

- (1) Post TCM Credit – means any tax credit granted under this Code, the Puerto Rico Incentives Code, prior incentives laws, or any other special law, after the implementation date of the TCM.
- (2) Pre TCM Credit – means any tax credit granted under this Code, the Puerto Rico Incentives Code, prior incentives laws, or any other special law, before to the implementation date of the TCM.

(3) **Regulatory Agency.** – means any government agency authorized under any incentives law or special law to grant tax credits.

(4) **Prior Incentives Laws.** – It includes, but is not limited to, Act No. 135 of May 9, 1945, as amended; Act No. 72 of June 21, 1962, as amended; Act No. 126 of June 28, 1966, as amended; Act No. 54 of June 21, 1971, as amended; Act No. 70 of June 23, 1978, as amended; Act No. 47 of June 26, 1987, as amended; Act No. 46 of August 5, 1989, as amended; Act No. 78-1993, as amended; Act No. 225-1995, as amended; Act No. 165-1996, as amended; Act No. 135-1998, as amended; Act No. 213-2000; Act No. 244-2003, as amended; Act No. 325-2004, as amended; Act No. 73-2008, as amended; Act No. 26-2008, as amended; Act No. 74-2010, as amended; Act No. 83-2010, as amended; Act No. 118-2010, as amended; Act No. 27-2011, as amended; Act No. 113-2011, as amended; Act No. 20-2012, as amended; Act No. 22-2012, as amended; Act No. 1-2013, as amended; Act No. 95-2013, as amended; Act No. 135-2014, as amended; Section 7 of Act No. 171-2014, as amended; Act No. 185-2014, as amended; Act No. 187-2015, as amended; and Act No. 14-2017, as amended, and any other similar tax incentives law enacted prior to Act No. 60-2019, as amended.

(c) The Secretary shall prescribe by regulations, administrative determination, circular letter, information bulletin, or other general communication, the implementation date of the TCM for the purposes of paragraphs (1) and (2) of subsection (b) of this Section, as well as the procedure for registering, transferring or assigning, and claiming tax credits in the TCM.

(d) Notwithstanding the provisions of this Code and any other special laws, it shall be an essential condition to claim a Post TCM Credit, that it be registered in the TCM. If a Post TCM Credit is not registered in the TCM, it may not be claimed against the tax obligation determined under Subtitle A of this Code, as well as any income tax imposed under the Puerto Rico Incentives Code and prior incentives

laws, or any other income tax imposed under a similar law substituting them or any combination thereof.

(e) Interagency Coordination for Tax Credit Registration in the TCM – The Department of Economic Development and Commerce as well as any other Regulatory Agency shall notify the Secretary of the Treasury, in the form and manner prescribed by the Secretary of the Treasury, of the tax credits granted by them.

(f) The Secretary or any officer or employee of the Department of the Treasury is hereby empowered to use data collection mechanisms as are necessary for the administration and oversight of tax credits in order to collect data from the electronic systems used by the Department.

(g) The Secretary may compel the presentation of such additional documentation as he may deem necessary to prove the granting, approval, and holding of tax credit.

(h) TCM Transitory Provisions – Notwithstanding the provisions of this Code and any other special laws, Pre TCM Credits shall be subject to the following rules of use:

(1) Every Pre TCM Credit may be claimed subject to the provisions of the law under which it was granted and this Code, against the income tax, as determined under the provisions of this Code, as well as any income tax imposed under the Puerto Rico Incentives Code and prior incentives laws, or any other income tax imposed under a similar law substituting them or any combination thereof, for a period of three (3) taxable years after the implementation date of the TCM. The Secretary shall prescribe by regulation, administrative determination, circular letter, information bulletin, or other general communication, the first taxable year of said three (3)-taxable year period. Provided, that during said period, and as allowed by the law under which the credit was granted, the credit holder may sell or

assign the same and the purchaser or assignee shall be subject to the limitations established in this paragraph.

(2) Any unused Pre TCM Credit balance available at the end of the three (3) taxable year period provided in paragraph (1) of this subsection may not be claimed or carried over to subsequent taxable years.”

Section 57.- Paragraph (5) is hereby amended and a new paragraph (7) is hereby added to subsection (a); paragraph (1) of subsection (b) is hereby amended in Section 1061.15 of Act No. 1-2011, as amended, known as the “Puerto Rico Internal Revenue Code of 2011,” to read as follows:

“Section 1061.15.- Requirement to Submit Financial Statements or Other Documents with the Returns.

(a) ...

(1) ...

...

(5) Every affiliated group, as defined by Section 1010.05, constituted by entities or natural persons engaged in trade or business in Puerto Rico shall submit the financial statements required in paragraphs (2), (3), and (4) as consolidated or combined financial statements, in accordance with the U.S. Generally Accepted Accounting Principles (US GAAP). However, such consolidated or combined financial statements shall include an attachment showing in columns the financial situation and the results of the operations of each one of the affiliates that constitute the affiliated group. The Secretary may prescribe by regulations, circular letter, administrative determination, or general communication, such conditions as deemed appropriate to waive the requirement to file consolidated or combined financial statements and, in lieu thereof, require separate financial statements by entity; provided, that the information of the affiliates engaged in trade or business in Puerto Rico be included in the notes of such financial statements,

along with an attachment showing in columns, the financial situation and the results of the operations of each one of the affiliates that constitute the affiliated group.

(A) For taxable years beginning after December 31, 2018, and for purposes of meeting the requirements of this paragraph (5), all entities that have generated a volume of business equal to or higher than one million dollars (\$1,000,000), and because the volume of business of said affiliated group is equal to or higher than three million dollars (\$3,000,000) for taxable years beginning before January 1, 2020, and ten million dollars (\$10,000,000) for taxable years beginning after December 31, 2019, in the aggregate, may submit financial statements showing the financial situation and the results of the operations of said entity individually without the need to submit consolidated or combined audited financial statements, provided, that a list of all affiliates engaged in trade or business in Puerto Rico is included in the notes of said financial statements. Said information shall include the name of each of the persons constituting the affiliated groups engaged in trade or business in Puerto Rico. Furthermore, a person that is part of the affiliated group subject to the provisions of this Section, but has not generated a volume of business equal to or higher than one million dollars (\$1,000,000.00) for a taxable year, shall not be required to submit audited financial statements. However, such entity shall be subject to the requirement of submitting an Agreed Upon Procedures report or a Compliance Attestation, provided, that it opts out of submitting audited financial statements. Provided, that for taxable years beginning after December 31, 2019:

(i) all entities that are part of an affiliated group with an aggregated volume of business equal to or higher than ten million dollars (\$10,000,000) and that individually have generated a volume of business equal to or higher than three million dollars (\$3,000,000), shall be required to submit audited financial statements, in accordance with paragraph (5);

(ii) all entities that are part of an affiliated group with an aggregated volume of business equal to or higher than ten million dollars (\$10,000,000) and that individually have generated a volume of business lower than three million dollars (\$3,000,000), shall not be required to submit audited financial statements under paragraph (5), but in lieu thereof, the provisions of paragraph (1) of subsection (a) of this Section shall apply to them.

(6) ...

(7) The audit requirement provided in this Section shall not apply to Disregarded Entities. However, the volume of business of said Disregarded Entity shall be attributed to the owner in a determination pursuant to paragraphs (1), (2), (3), (4), and (5) of subsection (a) of this Section.

(b) Supplementary information that underlies the financial statements, and other records used to prepare financial statements and submitted to audit procedures applied when a financial statement is audited by a certified public accountant holding a valid license to practice in Puerto Rico for taxable years beginning after December 31, 2012 but before January 1, 2023.-

(1) Every business, including an individual business, corporation, partnership, special partnership, limited liability company, corporation of individuals, insurance company, registered investment company, special employee-owned corporation, association, cooperative, real estate investment trust, or any other entity engaged in trade or business or income-producing activity in Puerto Rico, shall submit together with its income tax return, supplemental information underlying the financial statements and other records used to prepare financial statements and submitted to audit procedures applied when a financial statement is audited by a certified public accountant holding a valid license to practice in Puerto Rico, when, as required in subsection (a) of this Section, or at the option of the taxpayer, financial statements accompanied by an Auditor's Report prepared by a

Certified Public Accountant holding a valid license to practice in Puerto Rico are included with the income tax return.

(2) For taxable years beginning before January 1, 2023, in order to meet the requirements of this paragraph, the supplemental information underlying the financial statements and other records used to prepare financial statements and submitted to audit procedures applied to financial statements audits shall establish the following:

(A) ...

...

(3) For taxable years beginning after December 31, 2022, the requirements of this subsection (b) shall only apply to the circumstances described in subparagraphs (O), (P), and (Q) of paragraph (2).

(c) ...

...”

Section 58.- Section 1061.20 of Act No. 1-2011, as amended, known as the “Puerto Rico Internal Revenue Code of 2011,” is hereby amended to read as follows:

“Section 1061.20. - Obligation to Pay Estimated Tax by Individuals.

(a) ...

(g) Remote Employee. - Every Remote Employee, as defined in Section 1010.01(a)(43) of this Code, shall be required to pay estimated tax by individuals under the rules imposed in subsection (a) of this Section on the income realized after December 31, 2021 for services rendered to employers that comply with the provisions of Section 1010.01(a)(40)(D) of the Code.”

Section 59.- Section 1061.23 of Act No. 1-2011, as amended, known as the “Puerto Rico Internal Revenue Code of 2011,” is hereby amended to read as follows:

“Section 1061.23.- Estimated Tax Payment by Corporations.

(a) **Obligation to Pay Estimated Tax.** - Every corporation engaged in a trade or business in Puerto Rico subject to taxation under the provisions of this Subtitle, whose estimated tax for any taxable year, as computed in subsection (b) of this Section, is greater than one thousand dollars (\$1,000) shall pay, on the date provided in subsection (c), an estimated tax for the taxable year, including the alternative minimum tax.

(b) ...

(c) **Due date for Estimated Tax Payments.** -

(1) **General Rule.** - The due date for the first installment of the estimated tax required under subsection (a) shall be the fifteenth day of the fourth month of the taxable year, except as provided in paragraph (2) of this subsection. In this case, the estimated tax shall be paid in four equal installments. The second installment shall be paid on the fifteenth day of the sixth month of the taxable year. The third installment shall be paid on the fifteenth day of the ninth month of the taxable year. The fourth installment shall be paid on the fifteenth day of the twelfth month of the taxable year. However, for taxable years beginning after December 31, 2022, corporations holding an exemption decree under Act No. 60-2019, as amended, known as the 'Puerto Rico Incentives Code' or any prior or future similar law, may elect to pay the first installment together with the second installment on or before the fifteenth day of the sixth month of the taxable year. Provided, that the first year in which the special tax on gross income takes effect, such payments shall be made for the remaining installments.

...

(j) **Special Rule for Exempt Businesses** subject to the provisions of Section 3A of Act No. 135-1997, also known as the 'Tax Incentives Act of 1998,' Section 3A of Act No. 73-2008, also known as the 'Economic Incentives Act for the

Development of Puerto Rico,' or Section 2062.01(a)(3) and (b)(4) of Act No. 60-2019, also known as the 'Puerto Rico Incentives Code.'-

(1) Notwithstanding the provisions of this Section, corporations subject to the provisions of Section 3A of Act No. 135-1997, also known as the 'Tax Incentives Act of 1998,' Section 3A of Act No. 73-2008, also known as the 'Economic Incentives Act for the Development of Puerto Rico,' or Section 2062.01(a)(3) and (b)(4) of Act No. 60-2019, also known as the 'Puerto Rico Incentives Code,' which by reason of being subject to the regimes established in said laws, as the case may be, are not subject to the rules of Section 1123 (f)(4)(B) or Sections 2101 through 2106 of the Puerto Rico Internal Revenue Code of 1994, or any substitute or successor provision, shall not be subject to the estimated tax payment deadlines provided in subsection (d) of this Section during the transition period, and shall be subject to the provisions of paragraph (2) of this subsection (j).

(2) In lieu of the payment deadlines established in subsection (d) of this Section, the corporations described in paragraph (1) of this subsection (j), shall pay the estimated tax on or before the fifteenth (15<sup>th</sup>) day of the month following the start of the transition period and each following month during said period.

(3) For the purposes of paragraphs (1) and (2) of this subsection (j), the term 'transition period' means the period beginning the first day of the first month in which a corporation is subject to the provisions of Section 3A of Act No. 135-1997, also known as the 'Tax Incentives Act of 1998,' Section 3A of Act No. 73-2008, also known as the 'Economic Incentives Act for the Development of Puerto Rico,' or Section 2062.01(a)(3) and (b)(4) of Act No. 60-2019, also known as the 'Puerto Rico Incentives Code,' and ending on the last day of the eleventh month following said first month."

Section 60.- Section 1061.25 is hereby added to Act No. 1-2011, as amended, known as the "Puerto Rico Internal Revenue Code of 2011," to read as follows:

“Section 1061.25.- Foreign Financial Accounts.

(a) Every individual who is a Puerto Rico resident shall file, under penalty of perjury, a declaration authenticated by means of handwritten or electronic signature, with information about the financial accounts maintained outside of Puerto Rico or the United States in which said individual has a financial interest. The declaration shall include:

- (1) The name of the institution where it is maintained
- (2) The maximum value of the account during the year
- (3) The account number
- (4) Any other information determined by the Secretary through regulation.

(b) Financial Accounts. - For the purposes of this Section, it shall mean:

- (1) Bank accounts such as savings and checking accounts and time deposits, among others;
- (2) Securities accounts, such as brokerage accounts and securities derivatives or other financial instruments accounts;
- (3) Commodity futures or options accounts;
- (4) Crypto assets accounts;
- (5) Cash value life insurance policies (such as whole-life policies);
- (6) Investment company accounts or similar account;
- (7) Any other type of account as determined by the Secretary where funds are maintained in a financial institution outside of Puerto Rico or the United States or with a person performing the services of a financial institution.

(c) Financial Interest. - A resident of Puerto Rico has a financial interest when:

- (1) He is the owner of record of the account

(2) When the owner of record is an agent, attorney, or any other person acting on his behalf.

(3) The owner of record is a juridical entity in which the individual owns, directly or indirectly, at least fifty (50) percent of the voting power or the total value of the shares.

(4) The owner of record is a trust for the benefit of the grantor (grantor trust).

(5) The individual has authority (alone or in conjunction with another) to control the disposition of the assets held in said account.

(d) Exception. - The provisions of this Section shall not apply to accounts whose maximum value during the taxable year did not exceed ten thousand (10,000) dollars. Likewise, the Secretary may exempt compliance with this Section in such instances in which more than one individual is required to report the same financial account.

(e) Due date and place to file the declaration. - The declaration shall be filed together with the individual's income tax return in accordance with Section 1061.16.

(f) Form. - The Secretary shall design the declaration provided herein. However, the Secretary may allow by regulation or general communication that the provisions of this Section shall be complied with upon the filing of the form filed with the United States Government for the same purpose.

(g) Penalty. - Any individual that fails to comply with the provisions of this Section shall be subject to the provisions of Section 6030.11."

Section 61.- Section 1062.01 to Section 1062.01[sic] of Act No. 1-2011, as amended, known as the "Puerto Rico Internal Revenue Code for a New Puerto Rico," is hereby amended to read as follows:

"Section 1062.01. – Income Tax Withholding at Source in the Case of Wages.

(a) Definitions. - As used in this Section:

(1) Wages. - The term 'wages' means any remuneration for services rendered by an employee for his employer, and any remuneration as pension for services rendered, including the cash value of all remuneration paid by any medium other than cash; except that said term shall not include remuneration paid:

(A) ...

...

(b) Requirement of Withholding. - Every employer making payment of wages shall deduct and withhold upon such wages a tax determined in accordance with the withholding schedules prescribed by the Secretary in accordance with the tax rates fixed in this Subtitle, and which shall be part of the regulation under this Subtitle. For the purposes of applying said schedules, the term 'the amount of wages' shall mean the amount by which the wages exceed the withholding allowance under subsection (c)(1). Provided, that the requirement of reporting and withholding established in this subsection (b) shall not apply to payments made after December 31, 2021, for services rendered by a remote employee, as defined in Section 1010.01(a)(43) of this Code.

...

(r) ...”

Section 62.- A new subsection (h) is hereby added to Section 1062.07 of Act No. 1-2011, as amended, known as the “Puerto Rico Internal Revenue Code of 2011,” to read as follows:

“Section 1062.07.- Required Estimated Income Tax Payment Attributable to the Distributive Share of a Partner in a Partnership or of a Member of a Limited Liability Company subject to the Provisions of Chapter 7 of Subtitle A of this Code.

(a) ...

...

(h) Special Rule for Exempt Businesses subject to the provisions of Section 3A of Act No. 135-1997, also known as the 'Tax Incentives Act of 1998,' Section 3A of Act No. 73-2008, also known as the 'Economic Incentives Act for the Development of Puerto Rico,' or Section 2062.01(a)(3) and (b)(4) of Act No. 60-2019, also known as the 'Puerto Rico Incentives Code.'

(1) Notwithstanding the provisions of this Section, partnerships subject to the provisions of Section 3A of Act No. 135-1997, also known as the 'Tax Incentives Act of 1998,' Section 3A of Act No. 73-2008, also known as the 'Economic Incentives Act for the Development of Puerto Rico,' or Section 2062.01(a)(3) and (b)(4) of Act No. 60-2019, also known as the 'Puerto Rico Incentives Code,' which by reason of being subject to the regimes established in said laws, as the case may be, are not subject to the rules of Section 1123 (f)(4)(B) or Sections 2101 through 2106 of the Puerto Rico Internal Revenue Code of 1994, or any substitute or successor provision, shall not be subject to the deadlines for estimated income tax payment attributable to distributive share in accordance with subsection (b) of this Section during the transition period, and shall be subject to the provisions of paragraph (2) of this subsection (h).

(2) In lieu of the payment deadlines established in subsection (b) of this Section, the partnerships described in paragraph (1) of this subsection (h), shall pay the estimated tax on or before the fifteenth (15<sup>th</sup>) day of the month following the start of the transition period and each following month during said period.

(3) For the purposes of paragraphs (1) and (2) of this subsection (h), the term 'transition period' means the period beginning the first day of the first month in which a partnership is subject to the provisions of Section 3A of Act No. 135-1997, also known as the 'Tax Incentives Act of 1998,' Section 3A of Act No. 73-2008, also known as the 'Economic Incentives Act for the Development of Puerto Rico,' or Section 2062.01(a)(3) and (b)(4) of Act No. 60-2019, also known as the

‘Puerto Rico Incentives Code,’ and ending on the last day of the eleventh month following said first month.”

Section 63.- Section 1070.01 of Act No. 1-2011, as amended, known as the “Puerto Rico Internal Revenue Code of 2011,” is hereby amended to read as follows:

“Section 1070.01.- Definitions.

(a) Partnership. -

(1) ...

(3) ... The term ‘partnership’ shall also include the Pass-through Entities described in Section 1010.01(a)(45) of this Code.

(b) ...”

Section 64.- Paragraph (2) of subsection (d) of Section 1071.10 of Act No. 1-2011, as amended, known as the “Puerto Rico Internal Revenue Code of 2011,” is hereby amended to read as follows:

“Section 1071.10.- Optional Tax for Service Rendering Partnerships.

(a) ...

...

(d) The partnership may avail itself of the tax provided in subsection (a) of this Section; provided, that the following requirements are met:

(1) ...

(2) For taxable years beginning before January 1, 2023, at least the total of the resulting optional tax was withheld at the source in accordance with Section 1062.03 or was covered by the estimated payment provided in Section 1062.07.

(e) ...

...”

Section 65.- A Subchapter H is hereby added to Chapter 7 of Subtitle A, to include Sections 1078.01, 1078.02, 1078.03 in Act No. 1-2011, as amended, known as the “Internal Revenue Code for a New Puerto Rico,” to read as follows:

**“SUBCHAPTER H – PASS-THROUGH ENTITIES AND DISREGARDED ENTITIES**

Section 1078.01.- Provisions of the Code Applicable to Pass-through Entities.

(a) To the extent they are not incompatible with the provisions of this Subchapter, the provisions following provisions of Subtitle A of this Code shall be applicable to Pass-through Entities:

(1) The provisions of Subchapters A, B, C, D, E, F, and G of Chapter 7 of the Code.

(2) The provisions of Chapter 10 of Subtitle F of the Code.

(2)[sic]Any other provision contained in this Code applicable to partnerships, including, but not limited to:

(i) The rules for Affiliated Group contained in Section 1010.05 of the Code;

(ii) The rules applicable to tax return filing contained in Section 1061.03 of the Code;

(iii) The estimated payment requirements set forth in Section 1062.04 of the Code.

Section 1078.02.- Effects of Changes in Taxation.

(a) Pass-through Entity

(1) Every Pass-through Entity that elects to revoke an election to be taxed as a corporation shall be treated as if, as of the last day of its taxable year as Pass-through Entity, it had contributed all of its assets and liabilities to a New Corporation applying the rules of Section 1034.04(b)(5) of the Code, and

immediately after the Pass-through Entity is liquidated by distributing the assets of the 'New Corporation' to its shareholders under Section 1073.01 of the Code.

(2) For income tax purposes, every Pass-through Entity that elects to change its election in order to be taxed as a Disregarded Entity shall be treated as if, as of the last day of its taxable year as Pass-through Entity, it had distributed all of its assets and liabilities to its owner in a liquidation subject to Section 1073.01 of the Code.

(b) Corporation

(1) Every entity taxed as a corporation that elects to change its election to be taxed as a Pass-through Entity shall be deemed to have transferred, as of the last day of said year, its assets and liabilities to its shareholders or members, as the case may be, in a liquidation transaction subject to the provisions of Section 1034.04(q), and immediately after, the owners, as the case may be, contributed the distributed assets and liabilities to a new Pass-through Entity in a transaction subject to the provisions of Section 1072.01.

(2) Every entity taxed as a corporation that elects to change its election to be taxed as a Disregarded Entity shall be deemed to have transferred, as of the last day of said year, its assets and liabilities to its owner in a liquidation transaction subject to the provisions of Section 1034.04(q).

(c) Disregarded Entity

(1) Every limited liability company with a Disregarded Entity election that elects to change its election to be taxed as a Pass-Through Entity shall be treated as if, on the first day of the taxable year in which the change applies, the owner contributed all of the assets and liabilities of the limited liability company to a New Pass-through Entity in a transaction subject to the provisions of Section 1072.01 of the Code.

(2) Every limited liability company with a Disregarded Entity election that elects to change its election to be taxed as a Corporation shall be treated as if, on the first day of the taxable year in which the change applies, the owner contributed all of the assets and liabilities of the limited liability company to a new corporation in a transaction subject to the provisions of Section 1034.04(b)(5) of the Code.

(d) Every change in taxation under subsections (a), (b), and (c), the effective date of which is not the last day of the taxable year of the taxpayer shall be subject to the rules applicable to returns for a period of less than twelve months, including Section 1061.24 of this Code.

#### Section 1078.03.- Rules Applicable to Disregarded Entities

(a) Disregarded entities shall not be required to file tax returns and the owner shall report income and expenditures using the same taxable year and accounting method employed by him.

(b) The Secretary shall prescribe by regulation or general communication, among other provisions:

(i) The form and manner of making a Disregarded Entity election, which shall be filed on or before the due date for filing the income tax return for the election year, including extensions; and

(ii) the treatment when there is a change in the number of owners of a Disregarded Entity.”

Section 66.- Clause (i) of subparagraph (A) of paragraph (1) of subsection (a) of Section 1091.01 of Act No. 1-2011, as amended, known as the “Puerto Rico Internal Revenue Code of 2011,” is hereby amended to read as follows:

“Section 1091.01.- Tax on Nonresident Alien Individuals.

(a) Income not related to trade or business in Puerto Rico. -

(1) General Rule. -

(A) ...

(i) Interest received by a related person, rents, royalties, salaries, annuities, compensations, remunerations, emoluments, distributions from entities exempt by the provisions of subsections (a)(8)(F) or (a)(5)(A) of Section 1101.01, income attributable to the distributive share of a partner's interest in a partnership, net capital gains, or other fixed or determinable annual or periodical gains, profits, and income (other than insurance premiums or interest), a tax of twenty-nine percent (29%);

(ii) ...

..." 42.03 [sic]

Section 67.- Subsections (aa), (jj)(1), (ddd), and (eee), are hereby amended, and new subsections (fff), (ggg), and (hhh) are hereby added to Section 4010.01 of Act No. 1-2011, as amended, known as the "Puerto Rico Internal Revenue Code of 2011," to read as follows:

"Section 4010.01.- General Definitions.

(a) ...

...

(aa) Taxable Item. – Tangible personal property, taxable services, admission fees, digital products, and bundled transactions. However, items acquired with funds received from the Federal Nutrition Assistance Program (FNAP) or from the WIC program shall not constitute taxable items and shall be exempt from any tax imposed under this Subtitle D.

...

(jj) Endorsement. - ...

(1) The promoter may begin the sale and collection of the admission fee to a public event once the endorsement information return is electronically filed

through the Unified Internal Revenue System (SURI, Spanish acronym). The endorsement information return shall include the following information:

- (a) ...
- (b) number of tickets to be sold, as well as their respective sales price. For the purposes of this subsection, the sales price shall not include discounts to be granted by the promoter or service fees to be charged by ticketing companies;
- (c) number of courtesy tickets;
- (d) period during which the admission to the public event shall be charged;
- (e) evidence of a valid blanket bond;
- (f) Total number or percentage of tickets to be sold on discount. Only for the purposes of this subsection, the promoter may sell on discount the number of tickets deemed pertinent; provided, that the notice of the discount to be granted per ticket is given to the Public Performance Promoters Services Office (OSPEP, Spanish acronym) before the sale.
- (g) any other requirement prescribed by the Secretary through regulation, administrative determination, circular letter, or general information bulletin.

(ddd) Marketplace Facilitator. - Means a person, including an affiliate of the person, that facilitates the sale of tangible personal property, including specified digital product, admission fees, or taxable services that meet the requirements of paragraphs (1) and (2) listed below:

- (1) ...

...

(eee) Marketplace Seller. - Means a seller that engages in retail sales through a physical or electronic marketplace owned [sic] of tangible personal property,

specified digital product, admission fees, or taxable services, operated, or controlled by a marketplace facilitator, even if such seller would not have been required to collect and remit sales and use tax had the sales not been made out through such marketplace.

(fff) Digital Product. - It includes items that may be acquired through streaming, either by purchase or subscription; video, photographs, applications for electronic equipment, games, music, computer software, or any other similar item that is delivered or transferred electronically to the purchaser; Specified Digital Product and Other Digital Product.

(ggg) Specified Digital Product. - means digital audio-visual works transferred or delivered electronically, digital audio works, or other digital products, whenever a digital code provides the purchaser the right to obtain the product, shall be treated as a specified digital product, including digital product in non-fungible token or NFT format.

(hhh) Other Digital Product.- It includes, but is not limited to: greeting cards, images, video or electronic games or entertainment, electronic group membership to obtain exclusive electronic or audio-visual works, including, but not limited to, theatrical products, musical products, including concerts or videos, adult-content audio-visual material, news or information products, storage media, desktop applications, and any other product that may be considered digital product, whether it is delivered, transferred, or accessed electronically.”

Section 68.- A new subsection (h) is hereby added and former subsection (h) is hereby renumbered as subsection (i) of Section 4020.03 of Act No. 1-2011, as amended, known as the “Puerto Rico Internal Revenue Code of 2011,” to read as follows:

“Section 4020.03.- Rules for Determining the Source of Income Generated by the Sale of Taxable Items.

(a) ...

...

(h) In case of the sale of digital products, as defined in Section 4010.01(fff) of this Code, the source of income of said sales shall be:

(1) The street address of the purchaser to whom the sale is made.

(2) If the seller does not have the street address of the purchaser, the seller shall use the mailing address of the purchaser as the source of income of the sale.

(3) If the purchaser does not provide his mailing or street address to the seller, the seller shall use the information of the purchaser's bank account or credit card or of the branch of the financial institution where the account with which the purchase of digital product is made, is registered. If the bank account cannot be attributed to a specific branch or location, the sources of the charges shall be the principal office of the financial institution.

(4) The source of income of the payment generated in the sale of specified digital product shall be determined in accordance with the provisions of this paragraph, regardless of the physical location of any server from which the digital product is downloaded or streamed, or any other factor related to the sale thereof.

(i) The rules provided in this Section shall apply only to the imposition of the sales or use tax and the same shall not apply or be used in a supplementary manner for income tax purposes.”

Section 69.- Section 6030.10 of Act No. 1-2011, as amended, known as the “Puerto Rico Internal Revenue Code of 2011,” is hereby amended to read as follows:

“Section 6030.10.- Penalties.

(a) ...

(b) Penalties for Misdemeanors.- Except as otherwise expressly provided in this Code, in cases of conviction for a misdemeanor established by this Code, in addition to the restitution of the funds owed to the Secretary, including but not limited to the taxes, interests, surcharges, and penalties owed or withheld and not deposited, the person thus convicted shall be punished by a fine not to exceed five thousand dollars (\$5,000), or by imprisonment for a maximum term of ninety (90) days, or both penalties, at the discretion of the Court, plus costs arising from proceedings. In determining the amount of restitution, the Court shall request the Secretary to certify the amount owed in relation to the offense committed.

(c) Penalties for Felonies. -

(1) ...

(2) ...

(3) In determining the amount of restitution, the Court shall request the Secretary to certify the amount owed in relation to the offense committed.

(d) ...

...”

Section 70.- A subsection (e) is hereby added to Section 6030.11 of Act No. 1-2011, as amended, known as the “Puerto Rico Internal Revenue Code of 2011,” to read as follows:

“Section 6030.11. - Penalty for Failure to File Tax Returns or Declarations.

(a) ...

...

(e) Every individual responsible under Section 1061.25 for filing the declaration provided therein, who willfully fails to file such declaration within the due date therefor, shall be subject to a penalty of ten thousand dollars (\$10,000). In

addition to the civil penalty provided herein, the individual shall be guilty of a misdemeanor.”

Section 71.- A new paragraph (4) is hereby added to subsection (a) of Section 6051.02 of Act No. 1-2011, as amended, known as the “Puerto Rico Internal Revenue Code of 2011,” to read as follows:

“Section 6051.02.- Examination of Books and Witnesses.

(a) ...

(1) ...

...

(4) In order to determine the tax obligation of the taxpayer, the Secretary may request, through any official or employee of the Department of the Treasury, any taxpayer a copy of the forms filed with the U.S. Internal Revenue Service (IRS), including, but not limited to, returns, declarations, forms, applications, tax elections, and any other document related to the foreign financial accounts reporting requirement.”

Section 72.- A subsection (c) is hereby added to Section 6051.15 of Act No. 1-2011, as amended, known as the “Puerto Rico Internal Revenue Code of 2011,” to read as follows:

“Section 6051.15.- Expenses of Detection of Fraud and Underpayment of Taxes.

(a) ...

...

(c) Whistleblower Protection

(1) No employer, officer, employee, contractor, subcontractor, or agent of such employer or taxpayer may discharge, demote, suspend, threaten, harass, or in any other manner discriminate against an employee in the terms or conditions of employment in reprisal for:

(A) providing information or otherwise assisting in an investigation regarding a violation of this Code conducted by the Department of the Treasury, the Department of Justice, the Legislative Assembly, or an employee of the employer or contractor who has the authority to investigate the information.

(B) testifying, participating in, or otherwise assisting in any administrative or judicial action taken relating to a violation of this Code.

(2) An employee or contractor prevailing in any action under this subsection (c) shall be entitled, in addition to any other relief provided by law, the sum of two hundred percent (200%) of the amount of back pay and one hundred percent (100%) of all lost fringe benefits with interest. Likewise, said employee or contractor shall be entitled to attorney's fees and costs.

(3) The rights and remedies provided for in this subsection (c) may not be waived by any agreement between the parties or third parties or be part of an employment contract. No clause requiring mediation and/or arbitration of a dispute arising under this subsection shall be valid."

Section 73.- Paragraph (2) of subsection (a) of Section 4042.03 of Act No. 1-2011, as amended, known as the "Puerto Rico Internal Revenue Code of 2011," is hereby amended to read as follows:

"Section 4042.03.- Time to Remit the Sales and Use Tax.

(a) The taxes imposed in this Subtitle shall be payable to the Secretary by the person liable for issuing the payment, on the dates set in this Section.

(1) ...

(2) Sales Tax. - In general, the sales tax imposed in this Subtitle shall be payable to the Secretary by the person liable for issuing the payment not later than the twentieth (20<sup>th</sup>) day of the month following the month in which said tax was collected, or on that other date or manner, as established by the Secretary regarding

the manner, time, and conditions that shall govern the payment or deposit of said withheld taxes.

(A) Payment of Sales Tax in Semimonthly Installments. Effective July 2017 and until June 2022, any person who complies with the provisions of clause (i) of this subparagraph (A) shall remit the sales tax in semimonthly installments in accordance with this subparagraph.

(i) ...

...”

Section 74.- A new Subchapter F is hereby added to Chapter 5 of Subtitle F, which shall include Sections 6056.01 and 6056.02, of Act No. 1-2011, as amended, known as the “Puerto Rico Internal Revenue Code of 2011,” to read as follows:

“SUBCHAPTER F – LARGE TAXPAYERS UNIT

Section 6056.01.- Large Taxpayers Unit.

A Large Taxpayers Unit is hereby established within the organizational structure of the Department of the Treasury. The Secretary is hereby empowered to establish the organizational structure of this unit within the Department and assign personnel as are necessary to discharge the duties entrusted thereto.

Section 6056.02.- Duties of the Large Taxpayers Unit

Through the Large Taxpayers Unit, the Secretary is empowered to:

(a) Assist, monitor, and oversee that taxpayers meet the criteria established in Section 1010.01(a)(35) of the Code to be considered a Large Taxpayer, in accordance with the powers vested in the Secretary in Chapter 5 of Subtitle F of this Code;

(b) Develop and maintain an updated registry and a profile of Large Taxpayers;

(c) Provide Large Taxpayers with support services in connection with tax processes in the operating units of the Department of the Treasury;

- (d) Issue and coordinate communications directed to Large Taxpayers;
- (e) Establish metrics that allow for the identification of substantial changes in the behavior of tax aspects and the effects thereof in revenue collection;
- (f) Establish an audit plan to validate compliance of Large Taxpayers with their tax liabilities;
- (g) Conduct business and financial analyses per type of industry;
- (h) Develop and review procedures and forms as are necessary for the operations of the Large Taxpayers Unit;
- (i) Hire external resources as are necessary, including tax consultants or experts specialized in tax matters whose expertise is not available;
- (j) Assist Large Taxpayers to timely settle administrative matters, including, but not limited to the processing of certificates of exemption, bonded imported numbers, certifications required to obtain any exemption established in the Code, and clarify and settle tax debts.”

Section 75.- Subsection (a) is hereby amended and a subsection (f) is hereby added to Section 6080.15 of Act No. 1-2011, as amended, to read as follows:

“Section 6080.15.- Fines Applicable to Public Show Promoters and Establishment Owners.

(a) Failure to File an Endorsement Information return. - Every public show promoter who fails to comply with his duty to file an information return through the Unified Internal Revenue System (SURI, Spanish acronym) prior to begin the electronic sale and collection of admission fees to a public event, shall be subject to a fine of twenty-five percent (25%) of the amount of the sales tax corresponding to the endorsement issued by the Secretary. This fine shall apply to any promoter even if the promoter hires a ticketing company.

(b) ...

(c) ...

(d) ...

(e) ...

(f) Any company or promoter that does not hold a ticket seller license or any promoter representative who sells tickets through companies that are not registered with Public Performance Promoters Services Office (OSPEP, Spanish acronym) shall be subject to an administrative fine of twenty thousand dollars (\$20,000) and the Department of the Treasury shall proceed to cancel and prohibit the holding of the event upon written notice at least twenty-four (24) hours in advance.”

Section 76.- Section 7.135 of Act No. 107-2020, as amended, is hereby amended to read as follows:

“Section 7.135. - Personal Property Tax Return.

(a) ...

...

(c) Tax returns enclosed with audited financial statements and other documents prepared by certified public accountants. - Provided, that before January 1, 2023, every natural or juridical person engaged in trade or business or income-producing activity in Puerto Rico, required to submit, in accordance with Section 1061.15 of Act No. 1-2011, as amended, known as the ‘Puerto Rico Internal Revenue Code of 2011,’ or that voluntarily files with the Secretary of the Treasury audited financial statements prepared by a certified public accountant holding a valid license issued by the Government of Puerto Rico, shall file the personal property tax return together with the financial statements. In addition, the personal property tax return shall include:

(1) Supplemental information, underlying financial statements and other records used to prepare financial statements and submitted to audit procedures

applied when a financial statement audit is conducted by a certified public accountant holding a valid license in Puerto Rico stating the following:

(i) The amount of the inventory for each of the months of the calendar year determined using any accepted method under the U.S. Generally Accepted Accounting Principles (US GAAP) or under this Code, except for the inventory valuation method known as 'LIFO' (LAST IN FIRST OUT);

(ii) The amount of the inventory reserves, if any, for each month of the calendar year; and the taxable year, if different from the calendar year;

(iii) The amount of cash, classified as cash in bank as of January 1<sup>st</sup>, and the amount of cash deposited in a financial institution before January 1<sup>st</sup>, which was credited to the bank account after January 1<sup>st</sup>; and in the case of a business operating under a decree or tax exemption, an itemization of the value recorded in the books of such assets that, as of January 1<sup>st</sup>, are not being used in the exempt operation; and

(iv) The amount of inventory adjustments, if any, for each month of the calendar year; and the taxable year, if different from the calendar year.

(2) The supplemental information shall be submitted only in the Data Collection Form of the Department of the Treasury. However, the Department of the Treasury shall provide CRIM and the municipalities with access to all supplemental information. To such ends, it shall guarantee CRIM and each municipality access through electronic mechanisms.

(3) The requirement of this subsection (c) shall be met if the business, opts to files an Agreed Upon Procedures Report or Compliance Attestation Report prepared by a Certified Public Accountant (CPA) holding a valid license in Puerto Rico, in lieu of the Audited Financial Statement and Supplemental Information.

(4) The Department of the Treasury is hereby directed to take into consideration the necessary information for CRIM to discharge its oversight duties when designing the Agreed Upon Procedures Report and/or the Compliance Attestation Report required under Section 1061.15 of Act No. 1-2011, as amended, known as the ‘Puerto Rico Internal Revenue Code for a New Puerto Rico.’

The provisions of this subsection (c) relating to the supplemental information submission requirement shall apply solely in those cases in which said supplemental report is required in accordance with Section 1061.15 of Act No. 1-2011, as amended, known as the ‘Puerto Rico Internal Revenue Code of 2011.’”

Section 77.- Section 7.207 of Act No. 107-2020, as amended, known as the “Puerto Rico Municipal Code,” is hereby amended to read as follows:

“Section 7.207- Filing of Declaration.

(a) Declaration Date. -

(1) ...

(2) Every person subject to the payment of the license tax or his authorized agent shall be required to file a declaration in the form and model prescribed through regulation adopted by the Office of Management and Budget to such effect certifying that the declaration has been completed in accordance with the provisions of Section 7.169. Except as provided herein and those business operations exempted by the municipality through ordinance, every declaration shall be accompanied by the documents provided in subsections (b), (c), and (e) of this Section.

(b) Mandatory Documents for Every Business – A copy of the pages or attachments stating the gross income and operating expenses as submitted to the Secretary of the Treasury for the purposes of the income tax return. If the business is treated as a Disregarded Entity, as defined in Section 1010.01 of Act No. 1-2011, as amended, known as the ‘Puerto Rico Internal Revenue Code,’ it shall file a copy

of the appropriate pages or attachments of the taxpayer that recognized said business' income. These documents shall be accompanied by a certification of the taxpayer stating that such copies are a true and exact reproduction of the original documents filed with the Department of the Treasury attached to the income tax return. Said certification, which shall be included along with the volume of business declaration shall be made in the form designed and approved by the Municipal Affairs Office and made part of the declaration. Any declaration that fails to comply with this statutory requirement shall be deemed not filed.

The information contained in the income tax return shall be confidential; and all the penalties, violations, and restrictions relating to the use of said information, as provided in Act No. 1-2011, as amended, known as the 'Puerto Rico Internal Revenue Code of 2011,' shall apply to municipal employees and any person with access thereto.

(c) Audited Financial Statements. -

(1) Every business required to submit, in accordance with Section 1061.15 of Act No. 1-2011, as amended, known as the 'Puerto Rico Internal Revenue Code of 2011,' or that voluntarily files with the Secretary of the Treasury audited financial statements prepared by a certified public accountant holding a valid license issued by the Government of Puerto Rico, shall file the same together with the volume of business declaration. A volume of business declaration that is filed without enclosing the financial statements shall be deemed not filed. For the purposes of this Code, audited financial statements shall mean a balance sheet, profit and loss statement, cash flow statement, and the respective notes to the financial statements.

(2) ...

The provisions of this paragraph (2) of subsection (c) relating to the requirement to submit supplemental information shall apply only in those cases in

which said supplemental report is required under Section 1061.15 Act No. 1-2011, as amended, known as the ‘Puerto Rico Internal Revenue Code of 2011.’”

Section 78.- Subsection (c) of Section 5 of Act No. 74-2010, as amended, known as the “Puerto Rico Tourism Development Act of 2010,” is hereby amended to read as follows:

“Section 5.- Credits.

(a) ...

...

(c) Credit Carryover. - Any tourist investment credit or tourist investment alternate credit not used in a taxable year may be carried over to subsequent taxable years until it is exhausted, subject to the provisions of subsection (h) of Section 1051.16 of the Puerto Rico Internal Revenue Code, if applicable.

(d) ...”

Section 79.- Paragraph (6) of subsection (c) of Section 7.3 of Act No. 27-2011, as amended, known as the “Puerto Rico Film Industry Economic Incentives Act,” is hereby amended to read as follows:

“Section 7.3.- Availability of Tax Credits for Grantees. -

(a) ...

...

(c) Use of the Tax Credit. – The tax credit, as certified by the Auditor, may be used against the taxes imposed under Subtitle A of the Code, the taxes imposed under Section 8.1(a)(1)(A) of this Act, any other income tax imposed under a special law or any combination thereof, and may be claimed:

(1) ...

...

(6) Any unused tax credits may be carried over by the taxpayer until it is exhausted, subject to the limitations provided herein and in subsection (h) of Section 1051.16 of the Internal Revenue Code, if applicable.”

Section 80.- Paragraph (3) of subsection (a) and paragraphs (1) and (3) of subsection (c) of Section 2.11 of Act No. 83-2010, as amended, known as the “Green Energy Incentives Act of Puerto Rico,” are hereby amended to read as follows:

“Section 2.11.- Credits. -

(a) Credit for the Purchase of Products Manufactured in Puerto Rico. -

(1) ...

...

(3) The credit provided in this subsection shall be nontransferable, except in the case of an exempt reorganization. The amount of the credit not used by the exempt business in a taxable year may be carried over to subsequent taxable years until said credit is exhausted, subject to the provision of subsection (h) of Section 1051.16 of the Puerto Rico Internal Revenue Code, if applicable. This credit shall not generate a refund.

(b) ...

(c) Green Energy Source Research and Development Investment Credit. -

(1) Every exempt business holding a decree granted under this Act may claim a research and development investment credit equal to fifty percent (50%) of the special eligible investment made in Puerto Rico after the effective date of this Act by such exempt business or any affiliate thereof. Such credit may be applied to the tax on its GEI provided in subsection (a) of Section 2.9 of this Act.

For taxable years beginning after December 31, 2021, the following rules shall apply:

i. the exempt business shall request a certification attesting to the amount of the special eligible investment, which shall be supported by the

filing of Agreed Upon Procedures prepared by a Certified Public Accountant holding a valid license in Puerto Rico and the amount of the tax credit granted for each taxable year;

ii. the exempt business shall comply with the provisions of Section 6030.01 of Act No. 60-2019.

(2) ...

(3) Use of the Tax Credit. – Except as provided in subparagraph (A) of this paragraph, the tax credit granted under this subsection may be used in two (2) or more installments: up to fifty percent (50%) of said credit may be used in the year in which the eligible investment is made and the credit balance may be used in subsequent years until it is exhausted, subject to the provisions of subsection (h) of Section 1051.16 of the Puerto Rico Internal Revenue Code, if applicable. This credit shall not generate a refund.

(A) The tax credit granted under this paragraph as a result of a special eligible investment made in Puerto Rico for taxable years beginning after December 31, 2021 may be used in two (2) or more installments; up to fifty percent (50%) of said credit may be used in the taxable year in which the certification provided in paragraph (1) of this subsection is issued, and the credit balance in subsequent years until it is exhausted, subject to the provisions of subsection (h) of Section 1051.16 of the Puerto Rico Internal Revenue Code, if applicable. Provided, that said credit may be applied to the income tax determined in a non-delinquent income tax return, including any extension, as of the date of issue of the certification.

(4) ...”

Section 81.- Subsection (b) of Section 11 of Act No. 178-2000, as amended, known as the “Special Act for the Creation of the Santurce Theater District,” is hereby amended to read as follows:

“Section 11.- Tax Credit for Investing in Theatrical Businesses.

(a) ...

(b) Credit carryover. - Any unused theatrical business investment credit may be carried over to subsequent taxable years until it is exhausted, subject to the provisions subsection (h) of Section 1051.16 of the Puerto Rico Internal Revenue Code.

(c) ...”

Section 82.- Subsection (e) of Section 4 of Act No. 98-2001, as amended, known as the “Tax Credits for Investment in Housing Infrastructure Act,” is hereby amended to read as follows:

“Section 4.- Credit for Investment in Infrastructure. -

(a) General Rule. -

...

(e) Credit Carryover. - Any Credit not used in a given taxable year may be carried over to subsequent taxable years until it is exhausted, subject to the provisions subsection (h) of Section 1051.16 of the Puerto Rico Internal Revenue Code, if applicable.

(f) ...”

Section 83.- Section 5 of Act No. 98-2001, as amended, known as the “Tax Credits for Investment in Housing Infrastructure Act,” is hereby amended to read as follows:

“Section 5.- Maximum Credits per Year. -

The Department of Housing, in conjunction with the Department of the Treasury may approve up to fifteen million dollars (\$15,000,000) in Credits for Extraordinary Investment in Housing and/or Regional or Municipal Impact Infrastructure each fiscal year. In the event that the Department of Housing understands that a larger amount of credit is needed during a specific fiscal year to fulfill the best interests of the Commonwealth of Puerto Rico, it may request the

Department of the Treasury to authorize an additional amount of credits up to a total maximum of fifty million dollars (\$50,000,000) per year.

Prior to approving any credit request under this Act, the Secretary of Housing shall obtain from the Secretary of the Treasury a certification of the current amount of credits available for the fiscal year in question. If, in any fiscal year, the Department of Housing does not grant credits for the total amount allowed, it may use or carry over to a subsequent year the remainder of the credits not granted in a specific fiscal year.

It is hereby provided that, as of January 1, 2023, no amount shall be allocated for this credit.”

Section 84.- Subsection (a) of Section 1.8 of Act No. 140-2001, as amended, known as the “Tax Credits for Investment in Construction and Rehabilitation of Rental Housing for Low- or Moderate-Income Families and Tax Credits for Investments in the Acquisition, Construction, or Rehabilitation of Affordable Rental Housing for the Elderly Act,” is hereby amended to read as follows:

“Section 1.8.- Credit Cap per Year, Availability of Credit.

(a) Credit Cap. - Every taxable year, the Secretary of the Treasury shall allocate fifteen million (15,000,000) dollars as the maximum amount of credit available to be distributed pursuant to this Act; provided, that the Secretary of the Treasury shall authorize for a specific taxable year, at the request of the Executive Director, an increase in the amount herein provided when the interest of the People of Puerto Rico so warrant. This authorization shall be obtained through legislation to be introduced to such effects. It is hereby provided that, as of January 1, 2023, no amount shall be allocated for this credit.”

(b) Credit Balance. - If, for any fiscal year, the Authority does not grant credits for the total amount allowed, it may use or carry the credit balance over to a subsequent fiscal year, to a maximum of the fifty (50%) percent not granted in the

previous fiscal year. It is hereby provided that, as of January 1, 2023, no amount shall be allocated for this credit and any balance shall be transferred to the General Fund.

(c) Increase or Reduction of the Owner's Credit. – In those cases in which the owner invests more than the amount previously computed as an eligible investment and the housing project qualifies for a larger amount of credit, the Executive Director, in his discretion, may grant the same, provided, that the amount of additional credit granted shall be deducted from the amount of credit available in the year it is granted. The owner shall submit all such documents, evidence, and information that the Executive Director deems are necessary to be able to evaluate and certify the increase in the amount of the eligible investment made, and the increase in credits. This subsection shall be repealed on January 1, 2023.”

Section 85.- Subsection (l) of Section 17 of Act No. 183-2001, as amended, known as the “Puerto Rico Conservation Easement Act,” is hereby amended to read as follows:

“Section 17. – Tax Credit.

(a) ...

...

(l) Credit Cap per Year. - The maximum amount of tax credits available for a specific fiscal year of the Commonwealth of Puerto Rico to be distributed in accordance with this Chapter, shall be fifteen million dollars (\$15,000,000).”

Section 86.- Section 11 of Act No. 75 of July 2, 1987, as amended, is hereby amended to read as follows:

“Section 11.- Duties of the Notary- Information Return on Division, Merger, or Transfer of Real Estate and Tax Exemption Request.

In the execution of division, merger, or transfer of ownership deeds, it shall be the duty of the transferor or person making the division or merger to fill out and

file with the office of the authorizing notary the Information Return on Division, Merger, or Transfer of Real Estate.

Said return shall include the following information:

1. ...

5. Appraisal value together with an appraisal conducted by a Certified Professional Appraiser holding a valid license in Puerto Rico.

6. ...

7. ...

8. Plot Plan.

9. Title Report of the property in question.

The return shall also include...

In the case of...

In the case of ...

Notaries shall be required...

The Department ...”

Section 87.- Section 21.03 of Act No. 164-2009, as amended, known as “General Corporations Act,” is hereby amended to read as follows:

“Section 21.03.- Tax Liability.

A. For the purposes of any tax imposed by the Commonwealth of Puerto Rico or any instrumentalities, agencies, or political subdivisions thereof, an LLC formed under this Act or an LLC authorized to do business in Puerto Rico shall have the tax treatment provided in Act No. 1-2011,’ as amended, known as the ‘Internal Revenue Code for a New Puerto Rico, or any successor law, but may elect another tax classification allowed thereunder, if eligible.

B. ...

...”

Section 88.- Severability Clause.

If any clause, paragraph, article, or part of this Act were held to be void or unconstitutional by a court of competent jurisdiction, the ruling, holding, or judgment to such effect entered shall not affect, impair, or invalidate the remainder of this Act.

Section 89.- Effectiveness.

This Act shall take effect upon its approval.