

(S. B. 1091)  
(Conference)

**(No. 135-2014)**

(Approved August 7, 2014)

## **AN ACT**

To create the “Young Entrepreneurs Incentive and Financing Act,” in order to promote the retention of Puerto Rican talent and foster the return of young professionals who have left the Island; amend Section 1031.02 of Act No. 1-2011, as amended, known as the “Internal Revenue Code for a New Puerto Rico,” in order to establish an income tax exemption for individuals between the ages of sixteen (16) and twenty-six (26) for the first forty thousand dollars (\$40,000) of gross income earned on account of wages, rendered services, and/or self-employment; establish a full income, municipal license, and personal property tax exemption for the first five hundred thousand dollars (\$500,000) of gross income earned during the first three (3) years of operation of any New Business established by individuals between the ages of sixteen (16) and thirty-five (35); direct the Economic Development Bank for Puerto Rico to create a young entrepreneurs business financing program that allows for the refinancing of student loans used to obtain the training, specialty, and skills required to establish or operate a business; direct the Economic Development Bank to create a Venture Capital Investment program for young entrepreneurs; direct the Puerto Rico Industrial Development Company, in conjunction with the Land Authority, to create and maintain a real property inventory that shall be made available to Young Entrepreneurs to establish their New Businesses; add a new subsection (aa) and renumber the subsequent subsections of Section 9 of Reorganization Plan No. 1-2010; empower the Youth Development Program, attached to the Department of Economic Development and Commerce, in collaboration with the Trade and Export Company, to devise and publish a Youth Incentive Plan and a Youth Business Development Financing Plan establishing an interagency and multi-sectorial partnership that promotes the creation, support, and expansion of youth businesses subject to the commitment of participants to establish themselves and create businesses in Puerto Rico; authorize the Department of Economic Development and Commerce to promote and disseminate this legislation; and for other related purposes.

## **STATEMENT OF MOTIVES**

Youths are the builders of the social and economic future of our People. Young Puerto Ricans are essential for the sustainable economic development of the Island, because they will be substituting our current workforce and contributing new ideas to the knowledge economy. However, statistics show that Puerto Rico's youth population has been decreasing dramatically due to the lack of employment opportunities and tax benefits, among other considerations that could encourage them to remain in the Island, build a professional career, and establish their own business.

The Migrant Profile 2012 of the Puerto Rico Institute of Statistics states that the population of Puerto Rico continued to decrease in 2012, just as it happened in the last decade, according to the official annual population estimates of the U.S. Census Bureau. Specifically, seventy-five thousand (75,000) Puerto Ricans approximately have migrated to the United States, of those, 45,707 were persons younger than thirty-five (35) years of age. Likewise, this study updated Puerto Rico's population projection using as a basis the results of the 2010 Census, which estimated that the Island's population would decrease gradually within the next forty (40) years, reaching 2.3 million people by 2050.

Certainly, these projections entail serious repercussions for Puerto Rico's society. Even more so when, according to such projections, the group of the population composed of children younger than fifteen (15) is constantly decreasing and the group composed of persons older than sixty-five (65) will exceed thirty percent (30%) of the population by 2050. Furthermore, said projections indicate that the population between the ages of fifteen (15) and sixty-four (64) shall begin to decrease during this decade. On that note, it is worth quoting an excerpt of the conclusions of the Institute of Statistics:

[...]Migrants became slightly older, more educated, and with a higher income than the previous year. The characteristics of migrants will be a factor in learning about the impact that this demographic dynamic will have on Puerto Rico. It is of utmost importance to identify the opportunities and challenges that this phenomenon will bring about in order to develop the measures that will address the needs of Puerto Rico's population promptly.

In view of this scenario, which undoubtedly represents a substantial reduction in the working-age population of the Island, and consequently affects the socio-economic future of Puerto Rico, there is an imperative need to take the necessary measures to guarantee the general welfare of future generations and promote a positive social and fiscal long-term impact. Statistical data such as that stated above attests to the urgency with which our young working population must be encouraged to stay and be well-established in the Island. Puerto Rico direly needs its young population to develop professionally and acquire an entrepreneurial sense that shall enable it to contribute to the economic and social development of the Island. For such reason, it is critical to implement initiatives that instill a sense of belonging in our youth and, thus, lead them to contribute to the development of the Island.

Different tax incentives have been established throughout the years which benefit certain industries and sectors in Puerto Rico. Such benefits are necessary to serve justice to various sectors of the population that are facing economic hardships and promote activities that benefit the People in general. Furthermore, the exemptions herein proposed serve to encourage our young professionals to remain in the Island permanently and establish new businesses, thus preventing the flight of young talent that the Island has been experiencing throughout the years.

This legislation offers various competitive advantages for young professionals to work and establish themselves in Puerto Rico. Firstly, full income tax exemption is provided for the first forty thousand dollars (\$40,000) earned by young persons between the ages of sixteen (16) and (26) on account of wages, rendered services, or self-employment.

Moreover, this legislation seeks to promote entrepreneurship and business initiatives among our youth. As expressed by Victor Sedov, President of the Center for Entrepreneurship, at the G20 Youth Alliance Summit held in Russia on June 2013:

The current economic crisis is a structural one. Emerging industries require that young people possess new knowledge and entrepreneurial skills. Furthermore, tax and regulatory systems often inhibit business formation by young people. Systemic changes are needed to help the new generation of young entrepreneurs to succeed in the innovative economy of the 21<sup>st</sup> century.

Likewise, the United States Small Business Administration expressed that reducing taxation on income earned by youth business helps these to survive their first years. France also approved a law known as “L’*exoneration d’importations sur les benefices des enterprise nouvelles crees pour les jeunes,*” whereby it offers a tax exemption for new businesses created by young individuals during their first years of operation.

The Commonwealth of Puerto Rico has the responsibility to stay abreast of the times and provide workers with the tools needed to ensure the general welfare of the citizens in the long-term. Thus, the intent of this Act is to expedite and facilitate the creation of new businesses by young residents of Puerto Rico for the purpose of promoting economic development, creating new jobs, and fostering a socio-economically secured environment. For such reason, tax incentives are

established for any new business fully created by young entrepreneurs, as certified by the Trade and Export Company, during the first three (3) years as of the commencement of their operations in Puerto Rico. Likewise, an innovative financing tool is provided by the Economic Development Bank for Puerto Rico for the creation of a New Business by young entrepreneurs.

The main purpose of this Act is for young Puerto Ricans to be able to use their talent in service of the People of Puerto Rico in exchange for economic incentives that allow them to be established in the Island, buy their first home, and develop a professional career within their social environment. The benefits derived from this legislation exceed the fiscal cost of granting tax exemptions, because it encourages young Puerto Ricans to remain in the Island and contribute with their work and, consequently, with their compensation to Puerto Rico's economy.

The incentives herein established seek to encourage young citizens to stay in the Island, develop their professional careers, and in turn, promote the socio-economic development of Puerto Rico. This Act is the result of an alliance between the instrumentalities of the Executive Branch of the Commonwealth of Puerto Rico in order to implement a mechanism that is consistent with our fiscal reality. It also takes into account the statistics of young professionals who are weighing their option to move from Puerto Rico and offer them a tax benefit package that encourages them to establish in the Island. Hence, the Council on Education of Puerto Rico is hereby directed to require every Institution of Higher Education to furnish the profile data and statistics of its students and graduation candidates every year. Said data shall be used to update the database prepared by the Puerto Rico Institute of Statistics.

This Act further provides for the creation of partnerships among the instrumentalities of the Executive Branch to support Young Entrepreneurs in critical matters such as financing and capital investment. The Department of

Economic Development and Commerce, through the Youth Development Program, is charged with the coordination between all public instrumentalities responsible under the provisions of this Act for offering incentives, benefits, and financing in exchange for the commitment of Young Entrepreneurs to establish and develop a business in Puerto Rico. The Economic Development Bank (EDB) shall develop mechanisms to expedite transactions, and grant benefits and financing discounts, and establish special conditions to invest capital specifically geared toward the youth. The above shall ensure that youth businesses have a solid foundation and are successful and sustainable without jeopardizing the financial stability of the Economic Development Bank due to unreasonable risks. As a support measure, government agencies are directed to conduct an inventory of real and personal property that may be assigned to Young Entrepreneurs, subject to effective use criteria, and thus cover all the required aspects of starting and maintaining a successful business operating.

The Legislative Assembly of Puerto Rico, recognizing the dire fiscal situation that the Island is currently undergoing, is responsible for taking the necessary measures to ensure the general welfare of future generations of Puerto Ricans. The emphasis on talent retention is a step in the right direction. The competitive advantages of this Act shall render Puerto Rico into an attractive destination for new generations, regardless of the promise of nominal income made in other jurisdictions.

The people's demands to be able to live and develop in their birthplace are hereby addressed. In turn, the tools to attract better minds from abroad and promote the Island as a world-class business destination are thus provided.

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

Section 1.- Title

This Act shall be known as the “Young Entrepreneurs Incentive and Financing Act.”

## Section 2.- Declaration of Public Policy

It is the public policy of the Commonwealth of Puerto Rico to ensure the best interest of the People and promote the adequate and necessary mechanisms to maximize the general welfare of the Island.

Exercising its regulatory power and complying with its duty to ensure the socio-economic wellbeing of the People of Puerto Rico, the Legislative Assembly of the Commonwealth of Puerto Rico hereby declares as public policy to incentivize retention of local talent and foster the return of young professionals who have left the Island.

It is the public policy of the Commonwealth of Puerto Rico to expedite and facilitate the creation of new business by young residents of Puerto Rico, without impairing constitutional and legal protections for the purpose of promoting economic development, creating jobs, and providing our citizens with a socio-economically secured environment.

### I. YOUTH INCENTIVES PLAN

Section 3.- A new paragraph (35) is hereby added to subsection (a) of Section 1031.02 of Act No. 1-2011, as amended, to read as follows:

“Section 1031.02.- Exemptions from Gross Income

(a) The following income items shall be exempt from taxation under this Subtitle:

(1) ...

(35) Income derived by youths on account of wages, rendered services, and/or self-employment.- The first forty thousand dollars (\$40,000) of gross income earned by a youth on account of wages, rendered services, and/or self-employment shall be exempt from taxation under this Subtitle. The excess of such forty thousand dollars (\$40,000) shall be taxable at normal rates. In this case, the taxpayer shall not be entitled to claim the Special Deduction for Certain



Individuals provided in Section 1033.16. For purposes of this paragraph, the term ‘youth’ shall mean any individual resident of Puerto Rico who is between the ages of sixteen (16) and twenty-six (26) at the close of the fiscal year.”

#### Section 4.- Student Loan Refinancing

The Economic Development Bank for Puerto Rico shall devise a plan that allows for the refinancing of student loans, at competitive rates, which shall not exceed six percent (6%) of annual compound interest, subject to the commitment of the applicant to remain and work in the jurisdiction of the Commonwealth of Puerto Rico for at least six (6) years or the repayment term offered, whichever is greater. Students enrolled in graduate school in an accredited institution outside of Puerto Rico shall be exempt from this residency requirement. However, once they complete their studies, said students shall meet the minimum Puerto Rico residency requirement established. The Economic Development Bank may bring a legal action in accordance with the terms established in the applicable laws, in the event of noncompliance with the terms established herein. In any case, said refinancing shall only be granted when it is part of an application for financing for the development of a business by a Young Entrepreneur and evidence is furnished by the applicant of having received business training courses offered by the Department of Economic Development and/or the Foreign Trade Entrepreneurship Institute of the Trade and Export Company. The Applicant shall present attesting evidence of having completed said courses.

The Bank shall establish through regulations or administrative determination, the terms and special conditions to devise the plan.

## II. YOUTH BUSINESS DEVELOPMENT INCENTIVE PLAN

### Section 5.- Definitions

For purposes of this Act, the following terms and phrases shall have the meaning stated below:

a) “Special Youth Business Creation Agreement” or “Agreement” – shall mean an Agreement entered into by and between a Young Entrepreneur (as defined in this Section) and the Puerto Rico Trade and Export Company. The Young Entrepreneur shall commit to the development of his/her business, the creation of jobs, and other conditions, as appropriate, in exchange for the applicable benefits provided in this Act. Applicable benefits shall be specifically listed in the Agreement. The Agreement shall establish the effective term thereof and shall expire upon expiration of the benefits granted thereunder, as provided in this Act and the obligations agreed upon in the Agreement itself.

b) “Young Entrepreneur” – shall mean any individual who is a resident of Puerto Rico, between the ages of sixteen (16) and thirty-five (35), who is interested in creating and operating over the long-term a new business in Puerto Rico for an unspecified term, and who has obtained a high school diploma or an equivalency certificate of the Department of Education of Puerto Rico.

c) “New Business created by a Young Entrepreneur” or “New Business” – shall mean any business that begins its main business operations after executing a Special Youth Business Creation Agreement. The New Business shall be operated solely by Young Entrepreneurs, as defined in this Act. No business that has been operating through affiliates or resulting from a reorganization, as defined in Act No. 1-2011, as amended, known as the “Internal Revenue Code for a New Puerto Rico,” shall be considered a New Business.

### Section 6.- Youth Business Development Incentive and Financing Plan

The Youth Development Program, attached to the Department of Economic Development and Commerce, in collaboration with the Trade and Export Company and the Economic Development Bank for Puerto Rico shall devise a Financing Plan for the Development of Youth Businesses which shall entail a partnership between the instrumentalities of the Executive Branch to support Young Entrepreneurs in their training, incubation, and financing process, among others, subject to the commitment of the Young Entrepreneur to establish and develop a New Business in Puerto Rico. Such Plan shall include: guidelines for establishment of businesses in Puerto Rico; the incentives available for youths in accordance with this Act; and all the information needed to provide advise and facilitate the creation of New Businesses by Young Entrepreneurs.

The Plan shall be published in the websites of the Trade and Export Company, the Economic Development Bank for Puerto Rico, and the Department of Economic Development and Commerce, respectively, within thirty (30) days after the approval of this Act.

### Section 7.- Powers and Responsibilities of the Trade and Export Company

The Trade and Export Company shall be the entity responsible for certifying to the Youth Development Program and the Economic Development Bank the New Businesses created by Young Entrepreneurs that are eligible for the incentives provided herein.

Every New Business that enters into a Special Youth Business Creation Agreement with the Trade and Export Company may avail itself of all the incentives available under this Act. The terms, conditions, and requirements related to these benefits and incentives shall be governed by the provisions of this Act, the regulations thereunder, or the specific terms of each Agreement.

## Section 8.- Tax Benefits for New Businesses Created by Young Entrepreneurs

New Businesses that have executed a Special Youth Business Creation Agreement, as defined in this Act, shall enjoy the following incentives:

a) Temporary income tax exemption.- New Business operating under an Agreement shall be exempt from the payment of income taxes for three (3) fiscal years beginning on the date of execution of the Agreement. The Agreement shall specify the fiscal years to which such exemption shall apply. To receive such exemption, the New Business shall attach a copy of the Agreement to the income tax return.

b) Temporary municipal license tax exemption.- New Business operating under an Agreement shall be exempt from the payment of municipal license tax for three (3) fiscal years beginning on the date of execution of the Agreement. The Agreement shall specify the fiscal years to which such exemption shall apply. To receive such exemption, the New Business shall attach a copy of the Agreement to the volume of business declaration for the years to which such exemption applies.

c) Temporary personal property tax exemption.- Full exemption from the tax on the personal property of the New Business for three (3) fiscal years beginning on the date of execution of the Agreement. The Agreement shall specify the fiscal years to which such exemption shall apply. To receive such exemption, the New Business shall attach a copy of the Agreement to the personal property tax return for the years to which such exemption applies.

d) Tax exemptions provided in this Section shall be attributable solely to the first five hundred thousand dollars (\$500,000) of gross income earned by the New Business. Any amount in excess of five hundred thousand dollars (\$500,000) shall be subject to taxation at the normal rates. For purposes of determining the five hundred thousand dollars (\$500,000) of gross income earned by the New

Business, the gross income of a controlled group of corporations shall be aggregated, in accordance with Section 1010.04 of the Code, and an affiliated group, in accordance with Section 1010.05 of the Code.

e) Benefits shall be limited to only one New Business per each Young Entrepreneur.

f) Registration and Permit Requirement.- Any New Business operating under an Agreement shall meet the registration and permit requirements to operate a business, as provided in the laws and regulations of the Commonwealth of Puerto Rico.

g) The tax exemptions provided in this Section shall not be granted even if the applicant meets the requirements therefor, if at any time during the effectiveness of the Agreement, he/she is availing him/herself of any economic or fiscal incentives provided under any law to promote commercial, industrial, or tourist operations in Puerto Rico, including but not limited to the following Acts, as amended: the Tax Incentives Act of 1998, Act No. 135-1997; the Economic Incentives Act for the Development of Puerto Rico, Act No. 73-2002[sic]; the Puerto Rico Tourism Development Act of 2010, Act No. 74-2010; the Puerto Rico Film Industry Economic Incentives Act, Act No. 27-2011; the Green Energy Incentives Act of Puerto Rico, Act No. 83-2010; the Act to Promote the Export of Services, Act No. 20-2012; and Act No. 168 of June 30<sup>th</sup>, 1968.

Section 9.- Expedited Process to Obtain Government Permits and Certifications

The Youth Development Program shall create an expedited process for New Business that have executed an Agreement, as defined in this Act, to have priority when requesting any government permits, licenses, and certifications required to begin operating in Puerto Rico. The Program shall develop a system to refer New

Businesses to the government agencies responsible for granting government benefits, issuing certifications and permits, among others.

In order for a New Business to request the expedited permit granting process, said New Business shall submit a copy of the Special Youth Business Creation Agreement entered into with the Trade and Export Company which certifies the New Business as such. This shall not constitute an impairment to request and obtain permits under the regular procedure established in Sections 8.15 and 8.16 of Act No. 161-2009, known as the “Puerto Rico Permit Process Reform Act.”

The guidelines of the Expedited Process for permit evaluation and granting shall be included in the Youth Business Development Incentive and Financing Plan, established in Section 6 of this Act.

In the administrative context, the Permit Management Office shall use its existing digital information system. However, it shall create a new website to be known as the “Permits for New Business Created by Young Entrepreneurs,” to expedite the permit evaluation and granting process, in accordance with the provisions of this Act.

#### Section 10.- Real Property Government Inventory

The Puerto Rico Industrial Development Company, in conjunction with the Land Authority, shall create an inventory of the real property of the Government of the Commonwealth of Puerto Rico (ELA, Spanish acronym) that may be made available to Young Entrepreneurs to establish a New Business, as defined in this Act. These government entities shall: (1) give priority to the establishment of New Businesses in municipalities where unemployment rates exceed the median of the Island’s unemployment rate, according to the report entitled “Unemployment Statistics by Municipality,” prepared on a monthly basis by the Bureau of Labor

Statistics of the Department of Labor and Human Resources; and (2) establish through regulations the cost of the properties.

Agencies must complete the inventory process within thirty (30) days after the approval of this Act.

Every agency, public corporation, and instrumentality of the Commonwealth of Puerto Rico is hereby directed to submit an inventory of available properties, in accordance this Act, within thirty (30) days after such inventory has been required.

#### Section 11.- Financing; Venture Capital Investment

Subject to the eligibility criteria provided by the Economic Development Bank for Puerto Rico, it is hereby directed:

a) To develop a specialized program to address the financing and advisory needs of Young Entrepreneurs. This program shall establish the parameters to give discounts on the fees and interest rates corresponding to the financing of a New Business, as defined in this Act. For the purpose of providing financial advisory services to Young Entrepreneurs, the Economic Development Bank for Puerto Rico and the Trade and Export Company shall coordinate the manner in which services shall be rendered.

b) To create a venture capital investment program that shall serve as an incentive to develop new businesses. This program shall establish a Special Investment Capital Fund as an instrument to support the creation of New Businesses by Young Entrepreneurs. The Economic Development Bank for Puerto Rico may enter into agreements within this program that allow for the acquisition of shares and participation in the board of directors of New Businesses that receive funds from this program.

Section 12.- A new subsection (aa) is hereby added and subsequent subsections of Section 9 of the Reorganization Plan, No. 1-2010, are hereby renumbered to read as follows:

“Section 9.- Powers, Functions and Duties of the Council

The Council shall have the following powers, functions, and duties:

(a) ...

(b) ...

(c) ...

...

(aa) To require every Institution of Higher Education to furnish the profile data and statistics of its students and graduation candidates every year. Such data and statistics shall be delivered to the Council by December 31<sup>st</sup> of each year. This information shall be used to update the database prepared by the Puerto Rico Institute of Statistics.

(bb) ...

(cc) ...

(i) ...

(ii) ...

...”

Section 13.- Collaboration Agreements for Business Incubation

The Department of Economic Development and Commerce, through the Youth Development Program, is hereby empowered to enter into collaboration agreements with private organizations that provide business incubation services, as well as with other public entities that provide support services.

The Youth Development Program shall coordinate with higher education institutions, including but not limited to universities and public or private professional colleges, to conform their business development program with the Youth Business Development Incentive and Financing Plan. Recognizing the high socio-economic value of said Plan, such institutions shall voluntarily promote student participation in said program.



#### Section 14.- Rulemaking Authority

The Department of the Treasury, the Puerto Rico Trade and Export Company, the Department of Economic Development and Commerce, the Department of Education, the Land Authority, the Puerto Rico Industrial Development Company, and the Economic Development Bank are hereby authorized to promulgate regulations, rules, circular letters, or administrative determinations as are necessary to enforce the provisions and attain the purposes of this Act within a term not to exceed thirty (30) days after the approval thereof. Any regulation, rule, circular letter, or administrative determination herein authorized shall be consistent with the Statement of Motives and the Public Policy of this Act. The regulations to be promulgated under this Act shall not be subject to the provisions of Act No. 170 of August 12, 1988, as amended, known as the “Commonwealth of Puerto Rico Uniform Administrative Procedures Act.” The absence of any regulations provided for in this Act shall not prevent the application thereof.

#### Section 15.- Advertising Campaign

The Department of Economic Development and Commerce, through the Youth Development Program shall be responsible for the promotion and dissemination of this legislation together with the Youth Business Development Incentive and Financing Plan on its website, social media and any other media outlet deemed appropriate. The Office of Management and Budget shall earmark the corresponding item in the Budget of the Commonwealth of Puerto Rico.

#### Section 16.- Severability

If any clause, paragraph, subparagraph, article, provision, section, subsection, or part of this Act were held to be unconstitutional by a competent court, such holding shall not affect, impair or invalidate the remaining provisions of this Act. The effect of such holding shall be limited to the clause, paragraph,

subparagraph, article, provision, section, subsection, or part thereof thus held to be unconstitutional.

Section 17.- Effectiveness

This Act shall take effect immediately after its approval, and shall be effective for taxable years beginning before January 1<sup>st</sup>, 2020.

## CERTIFICATION

I hereby certify to the Secretary of State that the following **Act No. 135-2014 (S. B. 1091 (Conference))** of the **3<sup>rd</sup> Regular Session** of the **17<sup>th</sup> Legislative Assembly of Puerto Rico**:

**AN ACT** to create the “Young Entrepreneurs Incentive and Financing Act,” in order to promote the retention of Puerto Rican talent and foster the return of young professionals who have left the Island; amend Section 1031.02 of Act No. 1-2011, as amended, known as the “Internal Revenue Code for a New Puerto Rico,” in order to establish an income tax exemption for individuals between the ages of sixteen (16) and twenty-six (26) for the first forty thousand dollars (\$40,000) of gross income earned on account of wages, rendered services, and/or self-employment; establish a full income, municipal license, and personal property tax exemption for the first five hundred thousand dollars (\$500,000) of gross income earned during the first three (3) years of operation of any New Business established by individuals between the ages of sixteen (16) and thirty-five (35); etc.

has been translated from Spanish to English and that the English version is correct.

In San Juan, Puerto Rico, on this 15<sup>th</sup> day of April, 2016.

Juan Luis Martínez Martínez  
Director