

(S. B. 1250)

(No. 210-2014)

(Approved December 16, 2014)

AN ACT

To amend Section 3 of Act No. 135-2014, as amended, known as the “Young Entrepreneurs Incentive and Financing Act,” in order to make a technical amendment to Section 1031.02 of Act No. 1-2011, as amended; amend subsection (d) of Section 8 of Act No. 135-2014, as amended, in order to clarify that the amount of the exemption provided therein shall be for the first five hundred thousand dollars (\$500,000) generated each year during the first three (3) taxable years from the execution of the Agreement required for said benefit; amend Section 17 of Act No. 135-2014 to clarify the provisions regarding the effectiveness thereof; renumber paragraph (35) of subsection (a) of Section 1031.02 of Act No. 1-2011, as amended, as paragraph (36); and for other purposes.

STATEMENT OF MOTIVES

Act No. 135-2014, known as the “Young Entrepreneurs Incentive and Financing Act” was approved on August 7, 2014 in order to promote the retention of Puerto Rican talent, through several incentives, as well support and financing mechanism for young entrepreneurs. The main purpose of this Act is for young Puerto Ricans to use their talent in service of the People of Puerto Rico in exchange for economic incentives that shall allow them to establish on the Island, buy their first home, and develop their professional career within their social environment.

During the implementation of this measure there was detected a technical issue that needs to be corrected in Section 3 of said Act, because after the introduction of the bill that became Act No. 135-2014, but before its approval and enactment into Law, a new paragraph thirty-five (35) had been added through another law to Section 1031.02 of the Internal Revenue Code of 2011. Therefore, it is necessary now to renumber said subsection to correctly add the legislated benefit.

Also, the Department of Treasury stated that it was necessary to amend the language of the effectiveness clause of Act No. 135-2014 in order to implement the benefit established in Section 3 in accordance with the intent thereof. In fact, when the original bill of Act No. 135 was proposed, the budget estimates already contemplated that it would be effective for the current taxable year. Thus, for implementation thereof, according to intent of the measure, it is necessary to make its effective date retroactive to January 1, 2014.

Moreover, another issue was identified in Section 8 that must be clarified, given that the current wording of the Act may be confusing and lead to an interpretation that is inconsistent with the intent of this measure. Among the incentives provided in Section 8 for new businesses started by young entrepreneurs, subsection (d) of said Section grants full tax exemption on income, municipal license taxes, and property taxes to New Businesses established by youths between the ages of sixteen (16) and thirty-five (35) for the first five hundred thousand dollars (\$500,000) of gross income generated during the first three (3) years of operations. This measure clarifies that the limit on the amount of gross income exempt from taxation shall be annual.

BE IT ENACTED BY THE LEGISLATIVE ASSEMBLY OF PUERTO RICO:

Section 1.- Section 3 of Act No. 135-2014, as amended, is hereby amended to read as follows:

“Section 3.- A new paragraph (36) 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) ...

(36) 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 the 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 taxable year.”

Section 2.- Subsection (d) of Section 8 of Act No. 135-2014, as amended, is hereby amended to read as follows:

“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) ...
- b) ...
- c) ...
- d) The tax exemptions provided in this Section shall be attributable solely to the first five hundred thousand dollars (\$500,000) of gross income generated each year by the New Business during the first three (3) taxable years from the execution of the Agreement. Any amount in excess of five hundred thousand dollars (\$500,000) shall be subject to taxation at the normal rates. For the purposes of determining the first five hundred thousand dollars (\$500,000) of gross income generated by the New Business, the gross income of a controlled group of corporations shall be added, in accordance with Section 1010.04 of the Code, and of an affiliated group, in accordance with Section 1010.05 of the Code.

- e) ...
- f) ...
- g) ...”

Section 3.- Section 17 of Act No. 135-2014, as amended, is hereby amended to read as follows:

“Section 17.- Effectiveness.- This Act shall take effect immediately after its approval and shall be effective for taxable years beginning after December 31, 2013 and before January 1, 2020.”

Section 4.- Paragraph (35) of subsection (a) of Section 1031.02 is hereby renumbered as paragraph (36) 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 part:

(1) ...

...

(35) Miscellaneous Items.- ...

(36) 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 the 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 taxable year.”

Section 5.- Effectiveness

This Act shall take effect immediately after its approval.