

# **FAQ and Resource Guide**

## **Puerto Rico Research & Development Incentives (Act 60-2019)**

### **1. How do Puerto Rico's R&D incentives compare to U.S. federal incentives?**

Puerto Rico's R&D incentives under Act 60-2019 offer tax exemption grants with preferential tax rates, including a 4% income tax rate and exemptions from property and municipal license taxes for manufacturing activities, which can include manufacturing of software, applications, new technology, pharmaceuticals, medical devices, or developing new industrial products. This also includes investment in scientific research for biotechnology, medical research to develop new pharmaceuticals or medical devices, and University programs for Academic research. The R&D tax credits can cover up to 50% of eligible expenses without the incremental requirements found in U.S. federal incentives (like IRS Section 41). Puerto Rico also allows the transfer, assignment, or sale of these tax credits, often at a discount.

### **2. What types of businesses qualify for R&D tax credits in Puerto Rico?**

Eligible businesses include those engaged in scientific or industrial research and development for new products, services, or industrial processes. This includes software companies focused on AI, provided their activities are eligible under the guidelines of Act 60-2019. Specific eligible activities can also include the development of licensed or patented applications, recycling activities, and value-added activities related to certain ports designated by the Secretary of the Department of Economic Development and Commerce of Puerto Rico (DDEC).

### **3. Does all work need to be performed in Puerto Rico to qualify for incentives?**

Yes, to qualify for R&D incentives, the work must be performed in Puerto Rico. The R&D activities must be substantially (at least 80%) experimental in nature, and the commercial implementation of the resulting products, processes, or services must occur from Puerto Rico.

### **4. What specific activities or expenses qualify for R&D tax credits under Act 60-2019?**

Qualifying expenses include salaries & benefits, patents, licenses, payroll, rent, property taxes, maintenance and repair, machinery, professional services, utilities, insurance, materials & equipment, and training expenses related to R&D activities. The credit is

designed to support activities that are experimental and substantially conducted in Puerto Rico.

#### **5. What is the process and timeline for applying for R&D tax credits in Puerto Rico?**

Applications for R&D tax credits are submitted through the Single Business Portal. The process involves submitting various required documents, such as certified financial statements, debt certificates, and commercial references. Once submitted, the Secretary of DDEC will review and approve the credits annually based on the eligible expenses reported. A filing fee is associated with each annual report required from the exempt business.

#### **6. Are there any audits, fees, or other expenses associated with applying for R&D tax credits?**

Yes, applicants must include an Agreed Upon Procedure by an independent CPA to validate eligible expenses. There is a fee for filing the annual report, typically \$500 per fiscal year. Additional costs may include compliance with conditions such as employment requirements and investment commitments in machinery and equipment.

#### **7. Can a company that is not based in Puerto Rico still qualify for R&D incentives?**

Foreign companies can qualify for R&D incentives if they establish a branch or new domestic entity in Puerto Rico, or by contracting a Puerto Rican company to perform the qualifying activities. The key requirement is that the entity performing the work must be registered to do business in Puerto Rico under the Puerto Rico Department of State.

#### **8. What are the main benefits provided under the Puerto Rico Incentives Code for R&D activities?**

Benefits include a 4% fixed income tax rate, 100% exemption on eligible investment income, 75% exemption from real and personal property taxes, 50% exemption from municipal license taxes, and exemptions from excise and sales taxes on imported goods used in manufacturing operations.

#### **9. Are there any commitments or compliance requirements for businesses receiving R&D incentives?**

Businesses must comply with commitments, such as maintaining specific employment levels, filing annual reports, meeting minimum income and municipal tax payments, and fulfilling investment commitments in machinery and equipment. Non-compliance with these terms can impact the validity of the tax exemption decree.

#### **10. Can R&D tax credits be transferred, assigned, or sold?**

Yes, R&D tax credits under Act 60-2019 can be transferred, assigned, or sold, often at a discount. This provides flexibility for companies to maximize the utility of their credits depending on their financial strategies.

#### **11. How are tax exemption decrees treated under the Incentives Code?**

Tax exemption decrees under the Puerto Rico Incentives Code are treated as contracts between the government, the exempt business, and its shareholders, partners, or owners. These decrees set out specific terms and conditions, and they are subject to general contract rules. Amendments to decrees can be requested if a new law offers more favorable conditions, but this is at the discretion of the Secretary of DEDC.

#### **12. What are the return on investment (ROI) requirements for R&D incentives under Act 60-2019?**

ROI requirements focus on ensuring that the incentives generate tangible economic benefits for Puerto Rico, such as job creation and increased competitiveness. The incentives code includes provisions to measure ROI and maintain updated data on returns per economic sector to determine the effectiveness of the granted incentives.