INCENTIVE REGULATION
MO-DEC-013

SEPTEMBER 2020
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GOVERNMENT OF PUERTO RICO
DEPARTMENT OF ECONOMIC DEVELOPMENT AND COMMERCE

INCENTIVE REGULATION

Regulation No. MO-DEC-013, of the Department of Economic Development and Commerce of Puerto Rico, to establish and adopt the "Incentive Regulations", as the base regulation to implement the provisions of Act No. 60-2019, as amended, known as the "Puerto Rico Incentive Code", issued under Section 6060.02, which empowers the person who holds the position of Secretary of the Department of Economic Development and Commerce of Puerto Rico, in consultation with the agencies or instrumentalities required by the regulated matter, to adopt the necessary regulations to make effective all the provisions and purposes of Act No. 60-2019, as amended, known as the "Puerto Rico Incentive Code.

PREAMBLE

On July 1, 2019, the Governor of Puerto Rico, the Honorable Ricardo Rosselló Nevares, signed Act No. 60 known as the "Puerto Rico Incentives Code", which consolidates the dozens of decrees, incentives, subsidies, reimbursements, or tax or financial benefits existing at the date of its approval; promotes the environment, opportunities and adequate tools to foster the sustainable economic development of Puerto Rico; establishes the legal and administrative framework that will govern the application, evaluation, granting or denial of incentives by the Government of Puerto Rico; promotes the effective and continuous measurement of the costs and benefits of the incentives granted to maximize the impact of the investment of public funds; provides stability, certainty and credibility to the Government of Puerto Rico, in all matters related to private investment; improves the economic competitiveness of Puerto Rico through the repeal or amendment of a number of previous incentive laws, as cited in the Puerto Rico Incentive Code, and for other related purposes.

All these previous incentive laws have been interpreted over many years by a series of regulations, which were approved by different agencies and repealed from time to time, in many cases making it difficult to locate the interpretative provisions on the various incentive provisions.
Act No. 60-2019, as amended, known as the "Puerto Rico Incentive Code", has, among its main purposes, to simplify the application process and administration of the incentives offered by Puerto Rico. To this end, it is desirable to group in a single regulation all the interpretative provisions of Act No. 60-2019, as amended, known as the "Puerto Rico Incentive Code.

The purpose of this regulation is to establish a base regulation to which the various interpretative articles of the provisions of Law No. 60-2019, as amended, known as the "Puerto Rico Incentive Code", will be added. In this manner, all the interpretative provisions of Law 60-2019, as amended, known as the "Puerto Rico Incentive Code", will be adopted in a single regulation.
SUBTITLE A. - GENERAL PROVISIONS

Article 1000.01-1. - Title.
These Regulations shall be known and may be cited as the "Regulations on Incentives", MO-DEC-013, which interprets in its articles, the subtitles, chapters, subchapters and sections of Act No. 60-2019, as amended, known as the "Puerto Rico Incentive Code".

Article 1000.01-2. - Legal basis.
These Regulations are adopted pursuant to the provisions of Section 6060.02 of Act No. 60-2019, as amended, known as the "Puerto Rico Incentive Code", which authorizes the person who holds the position of Secretary of the Department of Economic Development and Commerce of Puerto Rico, in consultation with the agencies or instrumentalities required by the regulated subject matter, to adopt the necessary regulations to make effective all the provisions and purposes of Act No. 60-2019, as amended, known as the "Puerto Rico Incentive Code".

Article 1000.01-3. - Scope.
The provisions of this Regulation shall apply to any person, natural or legal, who has established, or intends to establish in Puerto Rico, an Eligible Business, and who applies to the person who holds the position of Secretary of the Department of Economic Development and Commerce of Puerto Rico, for a tax exemption or tax benefit decree, under the subtitles or chapters of Act No. 60-2019, as amended, known as the "Puerto Rico Incentive Code".

Article 1000.01-4. - Purpose.
The purpose of this Regulation is to establish the rules and regulations that will govern the process of applications, filing of compliance reports, collection of fees or transaction or service charges for the processing of applications for tax exemption decrees or tax benefits, pursuant to the subtitles or chapters of Act No. 60-2019, as amended, known as the "Puerto Rico Incentive Code," and any other procedures related to applications for tax exemption decrees or tax benefits granted.
Article 1000.01-5. - Terms Used.

The words and phrases used in these Regulations shall be interpreted according to the context in which they are used, and shall have the meaning applied by common and current usage. Where applicable, words used in the present tense include the future, and words used in the future tense include the present; words used in the masculine gender include the feminine gender, and words used in the feminine gender include the masculine gender; words used in the singular form include the plural form, and words used in the plural form include the singular form. Any reference to the term "day" shall be understood as the twenty-four (24) hour period of a calendar day, unless otherwise specified in these Rules.

For the purposes of the terms and phrases defined in these Regulations, the words "include", "including" or their synonyms shall be interpreted as not excluding, omitting or eliminating other matters or concepts within the meaning of the defined term. Likewise, unless otherwise expressed, any object that is specified in a definition shall only be interpreted as an illustration or characterization of the object, and not as the universe of the object.

Article 1000.02-1. - Classification.

The provisions of these Regulations are divided into the following Subtitles, each one serving a Subtitle of Act No. 60-2019, as amended, known as the "Puerto Rico Incentive Code":

Subtitle A. - General Provisions
Subtitle B. - Economic Development Incentive Provisions
Subtitle C. - Provisions on Monetary Stimulus or Tax Credits
Subtitle D. - Grant and Other Program Provisions
Subtitle E. - Benefit Funding Provisions
Subtitle F. - Administrative Provisions
Subtitle G. - Opportunity Zone Provisions in Puerto Rico
Subtitle H. - Final Provisions

Article 1000.02-2. - Organization.

These Regulations are divided into Articles, and each Article of these Regulations corresponds to a Section of Law No. 60-2019, as amended, known as the "Puerto Rico Incentive Code", which is being regulated, including references to the section, paragraph, subsection or sub-paragraph being addressed in the corresponding Article. The Articles, in turn, are divided into sections [(a), (b), (c), (...)], paragraphs [(1), (2), (3), (...)], subparagraphs [(A), (B), (C), (...)] and subincises [(i), (ii), (iii), (...) in the same manner as the Code has been drafted, but maintaining a clear and concise wording for the benefit of the user.

Examples are incorporated where the provision being discussed is intended to be clarified. In addition, the examples will be numbered.
Article 1000.04(e)-1. - Most Favorable Terms and Conditions; Interrelationship with Other Laws.

In those cases in which the Exempt Business is entitled under Law No. 60-2019, as amended, known as the "Puerto Rico Incentive Code" to: (i) a preferred tax rate; (ii) a total or partial exemption on any tax imposed by the Government of Puerto Rico, or one of its subdivisions, including municipalities, or; (iii) a different term or condition with respect to eligible activities or available credits, the Exempt Business may elect, at its discretion, to apply the more favorable provisions of Act No. 60-2019. 60-2019, as amended, known as the "Puerto Rico Incentive Code", or the other law, and keep the rest of the terms of its Decree unchanged. For such selection, the Exempt Business must request an amendment to its Decree, subject to the discretion of the DDEC Secretary and the endorsement of the Secretary of the Treasury.

The provisions of Act No. 60-2019, as amended, known as the "Puerto Rico Incentive Code" and these Regulations do not prohibit the application of the tax benefit provisions of other laws during the period before or after the effective date of a Decree under Act No. 60-2019, as amended, known as the "Puerto Rico Incentive Code."
CHAPTER 1. - RESERVED

CHAPTER 2. - DEFINITIONS

SUBCHAPTER A. - GENERAL DEFINITIONS

Section 1020.01(a)-1. - Experimental activity.

(a) Means that activity which is carried out by a trained professional in a certain field of Science or Technology as part of a Research and Development Project, which consists of a logical progression of work that involves Tests, observations and evaluations using reliable scientific instruments and methods in order to achieve valid knowledge that resolves a Scientific or Technological Uncertainty.

(b) All experimental activity will result in the generation of new knowledge in order to achieve a scientific or technological breakthrough.

Section 1020.01(a)-2. - Eligible Activities of a Research and Development Project.

(a) Means that activity which is carried out in Puerto Rico, by an Exempt Business or an Affiliated Entity to the Exempt Business, as detailed in section (a) of Article 3030.01(a)-1 of these Regulations, for the development of a new Product or Process or improvement of an existing Product, only if they are certified as eligible by the DDEC Secretary in a Certificate of Accreditation under the Code.

Section 1020.01(a)-3. - Incidental Activity.

(a) Means an activity that is carried out in a Research and Development Project in support of the Experimental Activity, but that does not directly contribute to the effort to achieve a Scientific or Technological Advance.

(b) Examples include, but are not limited to: scientific planning activities whose purpose is to identify particular Scientific or Technological Uncertainty, evaluate scientific or technological feasibility, define scientific or technological objectives and plan the detailed management of resources and work of a Research and Development Project.

(c) Planning activities include the phases of gathering requirements, analysis and design in the Development Life Cycle of a "Software" or information coding, among others.
Section 1020.01(a)(2)-1. - Affiliate.

(a) Means the term shall have the same meaning as provided in paragraph (2) of subsection (a) of Section 1020.01 of the Code, provided that, indirect ownership interest includes possession of an Entity, estate or trust that in turn holds an interest in another Entity. For such purposes, a Person's ownership percentage shall be determined in accordance with the rules for determining ownership under the Internal Revenue Code, including the rules of attribution contained in paragraphs (e) and (f) of Section 1010.04 of the Internal Revenue Code.

Section 1020.01(a)-4. - AFV.

(a) Means the Puerto Rico Housing Finance Authority, created by Act No. 103-2001, as amended, known as the "Puerto Rico Housing Finance Authority Act", or any other successor or analogous law.

Section 1020.01(a)-5. - Agency.

(a) Means any department, administration, business, office, instrumentality or public corporation of the Government of Puerto Rico.

Section 1020.01(a)-6. - Aqueducts and Sewers Authority ("AAA").

(a) Means the Puerto Rico Aqueduct and Sewer Authority, created by Act No. 40-1945, as amended, known as the "Puerto Rico Aqueduct and Sewer Authority Act", or any other successor or analogous law.

Section 1020.01(a)(8)-1. - Ports Authority.

(a) Means the Puerto Rico Ports Authority, created under Act No. 125-1942, as amended, known as the "Puerto Rico Ports Authority Act", or any other successor or analogous law.

Section 1020.01(a)-7. - Sales and Use Taxes.

(a) Means the tax applicable to articles of use or consumption, imported or manufactured in Puerto Rico, that an Exempt Business acquires for use in the eligible activity for which a Decree is granted.
Article 1020.01(a)-8. - Scientific or Technological Advancement.

(a) Means an increase in the Knowledge or Capacity base in a certain field of Science or Technology at a global level.

(b) For purposes of the credit granted by Section 3030.01 of the Code, the Knowledge or Capacity base is that which exists in the world and not that which is limited to Puerto Rico, a particular industry or business entity.

(c) No project, even if it uses Science or Technology, that does not contribute to increase the Knowledge base or Capacity of Science or Technology at a global level, will be considered a Scientific or Technological Advancement.

Article 1020.01(a)-9. - Movable or Immovable Property.

(a) Means the assets defined in Article 3.11 of the Municipal Property Tax Law, or equivalent provision of any successor or analogous law, used in an Exempt Business, including those used in the creation, existence, operation, renewal, expansion or development of such businesses for which a Decree is granted.

Section 1020.01(a)-10. - Capacity.

(a) Means, for purposes of the credit granted by Section 3030.01 of the Code, the skills, technologies, machinery, infrastructure or equipment that enable Science, Technology and Innovation activities in Puerto Rico.

Section 1020.01(a)-11. - Accreditation Certificate.

(a) Means the document issued by the DDEC Secretary, which certifies that certain activities or purchases are eligible for a Tax Credit, as applicable.

Section 1020.01(a)-12. - Certificate of Pre-eligibility.

(a) Means the certificate to be submitted by the Certified Practitioner as set forth in paragraph (3) of subsection (f) of Section 6020.01 of the Code.

Section 1020.01(a)-13. - Science.

(a) Means the systematic study of the nature and behavior of the physical and material universe.

(b) Advances in mathematics will be considered as Science only in those cases in which they are applicable to the physical and material universe.

(c) Work in the arts, humanities and social sciences, including economics, behavioral sciences and business management are not considered Science under Chapter 3 of Subtitle C of the Code.

Section 1020.01(a)-14. - Software Development Life Cycle (as defined by ISO/IEC 12207:2008 standard).
(a) Means the fundamental process through which a "Software" is developed and comprises the following phases: Gathering requirements, analysis, design, development and implementation of code, testing, launching and maintenance.

Section 1020.01(a)-15. - Reserved.

Section 1020.01(a)-16. - High Economic Impact Conglomerate.

(a) Means the set of industries or productive operations that substantially impact the economy of Puerto Rico as established in Article 2061.01(a)(4)(i)-1 of these Regulations.

Article 1020.01(a)-17. - Tax Credit Agreement.

(a) Means the document granted by the DDEC Secretary to a Person applying for a Tax Credit, setting forth the terms and conditions of the grant, issued in compliance with all requirements of Section 6030.01 of the Code.

Section 1020.01(a)-18. - Income Tax.

(a) Means the contributions imposed by Subtitle A of the Internal Revenue Code.

Section 1020.01(a)-19. - Property Contributions.

(a) Means the contributions imposed by the Municipal Contribution Law, or any successor or analogous law, on the Property or equivalent provision of any law replacing it on the value of all movable and immovable property that an Exempt Business has or uses, whether as owner, lessor, custodian or otherwise, for the operation of the eligible services for which a Decree is issued.
Section 1020.01(a)-20. - Municipal Contribution.

(a) Means the contributions imposed by Law No. 113-1974, as amended, known as the "Municipal Patents Act", or any other successor or analogous law, and any other tax, charge, arbitration or municipal contribution imposed by Law No. 81-1991, as amended, known as the "Autonomous Municipalities of Puerto Rico Act", or any other successor or analogous law.

Article 1020.01(a)-21. - Knowledge.

(a) Means the base level of information existing in the world in a given field of Science or Technology.

(b) The information may be in the public domain, privileged or verified by a competent professional working in a certain scientific or technological field.

Section 1020.01(a)-22. - Computer.

(a) Means electronic machine, analog or digital, equipped with a large memory capacity and information processing methods, capable of solving mathematical and logical problems, through the automatic use of computer programs.

Section 1020.01(a)-23. - Department of Agriculture.

(a) Means the Department of Agriculture of Puerto Rico, created by Act No. 4-2010, as amended, known as the "2010 Department of Agriculture Reorganization Plan", or any other successor or analogous law.

Section 1020.01(a)-24. - Department of Housing.

(a) Means the Puerto Rico Department of Housing created by Act No. 97-1972, as amended, known as the "Housing Department Organic Act".

Section 1020.01(a)(23)-1. - Director of the Tourism Office.

(a) Means the Director of the Tourism Office, in accordance with the provisions of Law No. 10-1970, as amended, known as the "Law of the Tourism Office of the Department of Economic Development and Commerce of the Government of Puerto Rico".
Section 1020.01(a)-25. - Development or Prototyping.

(a) Means the activity directed to the creation of a model of the Product, including, but not limited to: processes of identification of basic requirements of the Product (excluding marketing activities), the development of the design to fulfill those requirements, its implementation, experimentation and Testing, and the synthesis and integration of all its components.

Section 1020.01(a)-26. - Cash.

(a) Means only and exclusively money in legal tender or its equivalent in checks or drafts.

Section 1020.01(a)-27. - Reserved.

Section 1020.01(a)-28. - Extended Commercial Scale Start Date.

(a) Means any other date within a maximum period of five (5) years from the date of the approval of the Decree.

Section 1020.01(a)-29. - Economic Incentive Fund.

(a) Means the Fund created by Section 5010.01 of the Code, for the purpose of carrying out economic development purposes of this Code, known as the Economic Incentive Fund.

Section 1020.01(a)-30. - State Insurance Fund.

(a) Means the State Insurance Fund Corporation, established under Act No. 83-1992, as amended, known as the "Workers' Compensation System Act”.

Section 1020.01(a)-31. - Reserved.

Section 1020.01(a)-32. - Economic Incentives.

(a) Means incentives granted under paragraph (d) of Section 5010.01 of the Code.
Section 1020.01(a)-33. - Scientific or Technological Uncertainty.

(a) Means what happens when a professional trained in a certain field of Science or Technology does not know and cannot deduce or verify without a Research and Development ("R&D") exercise, if something is scientifically possible or technologically viable, or if it can be put into practice. This includes System Uncertainty, defined in Article 1020.01(a)-34 of these Regulations.

Section 1020.01(a)-34. - System Uncertainty.

(a) Means what happens when the characteristics of individual components are known, but there is uncertainty about the best way to combine these components in order to obtain a specific technological function.

Section 1020.01(a)-35. - Computing.

(a) Means the set of scientific and technical knowledge that makes the automatic processing of information by means of computers possible.

Section 1020.01(a)-36. - Reports.

(a) Means any reports required of exempt businesses by the agencies concerned in compliance with the Code.

Section 1020.01(a)-37. - Incentive Report.

(a) Means the annual report published by the DDEC, no later than September 30 of each year, on all incentives applied for and granted under the Code or under other prior incentive laws.

Section 1020.01(a)-38. - Pioneering Activity Report.

(a) Means Exempt Businesses under Section 2014.02 of the Code, where their eligible activity is qualified as a pioneering new activity.

Section 1020.01(a)-39. - Innovation.

(a) Means activity that results in the creation of or changes to industrial products or processes that improve their performance and commercial value.
Section 1020.01(a)(34)(ii)-1. - Special Eligible Investment.

(a) Means the amount of cash used by the Exempt Business that has a Decree granted under the Code or under any of the Prior Incentive Acts or any Affiliated Entity of the Exempt Business in the payment of certain detailed operating expenses related to an Eligible Activity conducted in Puerto Rico, and capitalizable expenses directly related to the development of infrastructure in Puerto Rico to be dedicated exclusively to Eligible Activities, for a period of no less than 15 years.

(b) The term "Special Eligible Investment" shall include an investment of the Exempt Business made with Cash from a competitive grant from the United States Government, a loan that is guaranteed by the Exempt Business itself, its Shares or its assets, or any Affiliated Entity of the Exempt Business or its assets. The term shall exclude any investment of the Exempt Business made with Cash from a donation, subsidy or incentive received by the Exempt Business from the Government of Puerto Rico including, but not limited to, its departments, agencies, municipalities or instrumentalities, which has been granted to encourage investment in the activity or in the acquisition of the buildings, structures, machinery or equipment.

(c) Expenses that qualify as a "Special Eligible Investment" are those directly related to the Eligible Activity limited to the following:

1. Operational expenses directly related to the Experimental Activity carried out in Puerto Rico;

2. The sum of the following items is limited to twenty percent (20%) of the amount determined in paragraph (1): operational expenses directly related to the Incidental Activity conducted in or outside of Puerto Rico and those attributable to the Experimental Activity conducted outside of Puerto Rico.

3. Operating expenses related to the Eligible Activity are limited to the following:

   (A) Payroll, including fringe benefits, commissions and bonuses in the portion that is attributable to the Research and Development Project

   (B) Insurance premiums;

   (C) Payment of employer contributions related to items covered under paragraph (A), municipal patents and licenses;

   (D) Net expenditure (not covered by subsidies or reimbursements) on electricity, water and telecommunications;

   (E) Materials;

   (F) Depreciation or rent payment of the property attributable to the area of the property used solely and exclusively in the Research and Development Project;

   (G) Repair and maintenance of machinery and equipment when it is being used exclusively in the Research and Development Project;
(H) Rent or depreciation of machinery and equipment when it is being used exclusively in the Research and Development Project;

(I) Professional technical services;

(J) Technical and specialized training, in or outside Puerto Rico, directly related to a Research and Development Project and aimed at training employees of the Exempt Business. Does not include expenses related to continuing education or for the updating of professional licenses.

(4) Capital Expenditures (real estate) - The acquisition, construction or improvement of physical facilities shall be considered a "Special Eligible Investment" provided that the facilities are used exclusively for Research and Development projects for a minimum period of fifteen (15) years, subject to recovery as set forth in paragraph (b) of Article 3030.01(a)-2 of these Regulations.

(5) Specifically the term "Special Eligible Investment" excludes the following expenses, among others:

(A) Depreciation, to the extent that you have claimed this credit for the acquisition or construction of the physical facilities; and

(B) Those expenses that are paid using credits generated under Section 3030.01 of the Code;

(C) Any expense of an Exempt Business incurred in Research and Development activities carried out under contract for the benefit of a third party ("contract research"), regardless of whether the company making the payment is itself an Exempt Business or not. However, only those investments aimed at expanding the services offered by the Exempt Business to new foreign markets will be considered as capital investments in real estate, machinery, equipment and instruments.

Section 1020.01(a)-40. - Reserved.

Section 1020.01(a)-41. - Reserved.
Section 1020.01(a)-42. - Planning Board.

(a) Means the Planning Board of Puerto Rico, created under Law No. 75-1975, as amended, known as the "Organic Law of the Planning Board of Puerto Rico", or any other successor or analogous law.

Section 1020.01(a)-43. - Reserved.

Section 1020.01(a)-44. - Just Cause.

(a) Means:

1. Natural disasters, thus declared by the person occupying the office of Governor;
2. Claims occurred in the Exempt Business that affect its operation;
3. Death of the shareholder, partner or majority member or their representative;
4. Bankruptcy certified by the trustee;
5. Operating losses evidenced by compiled or audited financial statements;
6. Any other circumstances that in the opinion of the Incentive Director merit consideration as Just Cause.

Section 1020.01(a). - Law for the Creation of "Assisted Living" Housing Projects for the Elderly in Puerto Rico or Law 244-2003.

(a) Means Law No. 244-2003, as amended, known as the "Law for the Creation of Assisted Living Housing Projects", or any other successor or analogous law, for the Elderly of Puerto Rico.

Section 1020.01(a)-45. - Public and Private Sector Co-participation Law for New Housing Operation or Law 47-1987.

(a) Means Law No. 47-1987, as amended, known as the "Public-Private Partnership for New Housing Operation Act," or any successor or analogous law.

Section 1020.01(a)-46. - Municipal Tax Law or Municipal Property Tax Law.

(a) Means Law No. 83-1991, as amended, or any other successor or analogous law.

Section 1020.01(a)-47. - Experimental Manufacturing.

(a) Means activity whose purpose is the creation of Prototypes and the development of new manufacturing processes.
Section 1020.01(a)(46)-1. - Exempt Business.

(a) Means any Eligible Business that has been granted a Decree.

Section 1020.01(a)(48)-1. - New SME.

(a) Means an Exempt Business that meets the Code's definition of an SME, Article 1020.01(a)(61)-1 of these Regulations, and that

1. Has not commenced operations as of the effective date of the Code;
2. Has not had any economic activity;
3. Has not had a turnover;
4. Is a new entity;
5. Any other factor that the DDEC Secretary deems relevant.

Section 1020.01(a)-48. - Planning Office.

(a) Means the Office of Strategic Planning and Economic Analysis, attached to the Business Development Area of the Industrial Development Company.

Section 1020.01(a)-49. - OGPe.

(a) Means the Permit Management Office created by Act No. 161-2009, as amended, known as the "Puerto Rico Permit Process Reform Act", or any other successor or analogous law, which assumed many of the responsibilities and powers of the Puerto Rico Permit and Regulations Administration (ARPE) as of December 1, 2010, as established in Act and Regulations No. 7951 approved on November 30, 2010.

Section 1020.01(a)(61)-1. - Small and Medium-Sized Enterprises (SMEs).

(a) Means Exempt Businesses, as defined in the Code, generating an average turnover of three million dollars ($3,000,000.00) or less during the three (3) previous tax years preceding the current Tax Year, and may have up to a maximum of five hundred (500) employees. For these purposes, and pursuant to Section 1061.15 of the Internal Revenue Code, the turnover shall be the total generated from the sales of goods, products, and services, without regard to the cost of the goods or products sold, by the Eligible Business and shall include the turnover of the controlled group as such term is defined under Section 1010.04 of the Internal Revenue Code, or the group of related entities, as such term is defined under Section 1010.05 of the Internal Revenue Code. For purposes of the Code, the term SME does not include Individual Resident Investors, Difficult to Recruit Professionals, or the terms Professional Medical Services and Eligible Scientific Research.
Section 1020.01(a)-50. - Pilot Plant.

(a) Means the facilities dedicated to experimental manufacturing whose purpose is to resolve the uncertainty related to the adaptation of a manufacturing process in an experimental laboratory environment to a commercial scale production environment.

Section 1020.01(a)(58)-1. - Gateway.

(a) Means the Puerto Rico Business Incentive Granting Portal, also known as the "Single Business Portal".

Section 1020.01(a)-51. - Process.

(a) Means the set of industrial operations, including, among others, agro-industrial practices of advanced technology or added value, that are executed in a logical order with the purpose of providing a service, developing a "Software" or creating a Product by means of the transformation of raw material or the assembly of components of a System.

(b) The Software Development Life Cycle is considered a Process.

Section 1020.01(a)-52. - Product.

(a) Means any material, "Software", service or elaboration resulting from a Process. A Product necessarily has economic value. In addition, a Product can be that which is ready for distribution and final consumption (finished product), or it can be a component subject to another Process that results in the creation of a finished product.
Section 1020.01(a)-53. - Intellectual Property.

(a) Means patents, inventions, formulas, processes, designs, patterns, know-how, copyrights, business secrets, literary, musical or artistic compositions, trademarks, trade names, brand names, franchises, licenses, contracts, methods, programs, systems, procedures, capital gains, campaigns, surveys, studies, trials, projections, estimates, customer lists, technical data or any other similar property, as defined in Section 1020.01(a)(60) of the Code.

Section 1020.01(a)-54. - Prototype.

(a) Means the first functional model of a Product or Process that presents all its technical qualities and operational characteristics, including the demonstration of viability and cost-efficiency to respond to a Scientific or Technological Uncertainty and for its production or implementation at a commercial scale.

Section 1020.01(a)-55. - Research and Development Project.

(a) Means those Eligible Activities carried out with the objective of achieving a Scientific or Technological Advancement through the resolution of some Scientific or Technological Uncertainty. The new knowledge resulting from a Research and Development Project must be useful for the creation of new Products, improve their efficiency or reliability or create new Processes of commercial value.

(b) For purposes of the Credit granted by Section 3030.01 of the Code, Research & Development will begin at the beginning of the Experimental Activities aimed at resolving the established Scientific or Technological Uncertainty and ends when the knowledge generated is codified in a form useful to a competent professional in the field, whether or not the Scientific Uncertainty has been resolved.

Section 1020.01(a)-56. - Proof.

(a) Means a controlled and focused exercise to scale in the observation and analysis of the behavior of a Product or Process in a safe and effective way with the purpose of verifying its safety, its technical performance and checking that it has the essential attributes included in the design or conceptual formulation. Marketing and other similar activities are excluded.
Section 1020.01(a)-57. - Registration of Certified Professionals.

(a) Means the record kept by the DDEC of the Certified Professionals authorized to carry out the expedited process established by the Code. The following provisions are applicable to this registry:

1. The registration will be publicly accessible through the Portal;
2. The registration shall include any Certified Professional who complies with Subtitle F of the Administrative Provisions of these Regulations;
3. Each Certified Professional will be assigned a registration number;
4. The Certified Professional shall renew his/her registration annually through the Portal and subject to such charges as may be established from time to time by the DDEC Secretary; and
5. The DDEC Secretary may establish by administrative determination, circular letter or newsletter, compliance requirements for Certified Professionals, including, but not limited to, minimum hours of continuing education and attendance of orientation workshops offered by the DDEC.

Section 1020.01(a)-58. - Legal Representative.

(a) Means a guardian or caretaker of a Person, as defined in these Regulations, duly authorized by a court or by means of a legally granted power of attorney. It also means a Person duly authorized to practice the legal profession in Puerto Rico who has been authorized by another Person to provide and/or receive information and/or to carry out procedures in accordance with the Code.

Section 1020.01(a)-59. - Secretary of Housing.

(a) Means the Person who holds the position of Secretary of the Housing Department of Puerto Rico, or the official to whom he delegates his powers and faculties under the "Organic Law of the Housing Department".

Section 1020.01(a)-60. - Professional Technical Services.

(a) Means those services directly related to the Experimental Activity that are subcontracted in support of the resolution of the Scientific or Technological Uncertainty, which requires a scientific or technological expertise and which is not available or immediately accessible to the Exempt Business or its affiliates.
Section 1020.01(a)-61. System.

(a) Means the combination of components (i.e. software, electronic devices, simple or compound chemicals, etc.), which work together to achieve a function that is new or different from that of the individual components.

Section 1020.01(a)-62. - Application.

(a) Means the request for industrial tax exemption or tax benefit, filed with the Incentives Office.

Section 1020.01(a)-63. - Technology.

(a) Means the practical application of scientific principles and knowledge.

Article 1020.01(a)-64. - Emerging Technology.

(a) Means the new technologies of innovation.

Section 1020.01(a)-65. - Non-Profit Organizations.

(a) Means a Domestic Person whose income is used to promote the purposes of the Entity itself and not to financially benefit the members of the Entity through the distribution of profits. For purposes of the Economic Incentive granted by the Business Incubator Program under Section 2100.03 of the Code, public corporations, municipal enterprises, cooperatives and any nonprofit corporation that are benefiting from the fund from the Community Microenterprise Incubator Program, pursuant to Commerce and Export Company Circular Letter 2013-06, are excluded.

Section 1020.02(a)(9)-1. - Young Entrepreneur.

(a) Means any Person who meets the following requirements:

1. Is a Resident Individual of Puerto Rico as defined in these Regulations;
2. Age ranges from sixteen (16) to thirty-five (35) years old;
3. Interest in creating and operating a new company in Puerto Rico for an indefinite term;
4. Has obtained a high school diploma or an equivalent certification from the Puerto Rico Department of Education, or is still in school and presents evidence that they are pursuing studies leading to a high school certificate or diploma;
In the case of students who are still pursuing studies leading to a high school certificate or diploma, the director or administrative officer in charge of the educational institution shall certify this fact by means of a signed document that includes the following information:

(A) Name of the educational institution;
(B) Postal and physical address;
(C) Telephone; and
(D) Name and position of the person signing the certification.

SUBCHAPTER B. - DEFINITIONS APPLICABLE TO INDIVIDUALS

Section 1020.02(a)-1. - Certification of Compliance.

(a) Means the document signed by the Certifying Issuing Agency, as this term is defined in Act 187-2015, as amended, known as the "Interagency Validation Portal Act for the Granting of Incentives for the Economic Development of Puerto Rico", which validates that the Qualified Physician who amends, or wishes to maintain an incentive or tax benefit, complies with the requirements of Act 187-2015, and with the requirements of all the provisions of the Code.

Article 1020.02(a)-2. - Certificate of Qualified Physician.

(a) Means the document signed by the Secretary of Health, or person authorized by the Secretary of Health, validating that the individual is a Qualified Physician under the provisions of the Code. The Department of Health shall establish the manner of applying for and obtaining this Qualified Physician Certificate.

Article 1020.02(a)-3. - Certificate of Community Service.

(a) Means the document signed by the Secretary of Health, or person authorized by him/her, validating that a Qualified Physician meets the requirement of one hundred and eighty (180) hours per year of community service, as set forth in the Code.

Article 1020.02(a)-4. - Difficult Recruitment.

(a) Means the process by which a professional is recruited, which, due to their specialized knowledge, requires a greater effort than that normally required for the recruitment of a professional in a specific industry. The following factors, among others, which may be used as criteria by the DDEC Secretary, will be considered in determining whether a professional is Difficult to Recruit:

(1) Level of academic offerings in Puerto Rico for the education and academic preparation of the professional;
(2) Number of professionals in Puerto Rico in the field or area of specialization of the professional to be hired by the Exempt Business;

(3) Level of sophistication, specialization or knowledge of the profession or skill compared to other professions in general;

(4) Size of the industry or number of companies in Puerto Rico related to the area of knowledge or the industry in which the professional specializes;

(5) Complexity of recruiting the professional by means of recruitment companies ("head hunters");

(6) Any other factor considered by the DDEC Secretary, as long as the factor defines whether the specialization of the professional is indispensable for the operations of the Exempt Business.

Article 1020.02(a)-5. - Annual Report.

(a) Means the annual report required by Code Section 6020.10(a)(4).

Article 1020.02(a)-6. - Law 216-2014.

(a) Means Law No. 216-2014, as amended, known as the "Tax Information and Permit Control Act".

Article 1020.02(a)-7. - New Resident.

(a) Means the Person who before applying for the tax benefits provided by Section 2021.02 of the Code for Professionals of Difficult Recruitment, was not an Individual Resident of Puerto Rico.

Article 1020.02(a)-8. - Difficult to Recruit Professional

(a) Means a Person who is eligible to obtain the benefits of Section 2022.03 of the Code, and who is an Individual Resident of Puerto Rico, including a New Resident, as that term is defined in Article 1020.02(a)-7 of these Regulations, with full-time employment, whose talent is considered indispensable under the criteria established in Article 1020.02(a)-4 of these Regulations. For purposes of this definition, full-time shall mean a minimum of forty (40) hours per week.
SUBCHAPTER C. - DEFINITIONS APPLICABLE TO THE EXPORT OF GOODS AND SERVICES

Section 1020.03(a)(3)-1. - Entry of Export Services.

(a) Means, for purposes of determining the income from Export Services, when the holder of a Decree under the Code performs activities covered by the Decree and at the same time participates in activities not covered by the Decree, for the computation of the Income from Export Services only the income attributable to the activities covered by the Decree shall be included. For this purpose, Export Services Revenue includes the value of the compensation received for the provision of Export Services, including the ownership interest in the companies to which the services are provided, given that the receipt of the interest is not incompatible with other provisions of this Regulation. The holder of the Decree must allocate the income between the covered and non-covered activities in a reasonable manner, taking into account the hours worked and the resources used to provide the covered and non-covered services, respectively.

(b) For the purpose of determining income from Export Services, when the facilities and/or personnel of a holder of a Decree under the Code are used in activities covered and also not covered by the Decree, the manner of recording the costs and expenses of the concessionaire must involve the exact allocation of the appropriate portion of the facilities' costs and expenses to the activities covered by the Decree. If the holder of the Decree cannot accurately allocate the costs and expenses of the facilities and personnel to the activities covered by the Decree or if the allocation would be excessively burdensome for the concessionaire, in that case, the costs and expenses attributable to the facilities and personnel may be prorated in a proportion to be determined by multiplying the total costs and expenses attributable to the facilities or personnel by a fraction having as numerator the gross annual revenues of the activities covered by the Decree that make use of the facilities or personnel and as denominator the total gross revenues of all activities that make use of the facilities or personnel.

(1) The provisions of the previous section may be illustrated with the following examples.

Example 1. - Company A has a Decree under Chapter 3 of Subtitle B, and also performs activities not covered by the Decree. Some of its employees work on both covered and non-covered activities and record the time they spend on each activity on a daily basis. These employees are paid a total of $120,000 per year and Company A has gross receipts of $200,000 on covered activities and $100,000 on activities not covered by the Decree. In determining its income from Export Services, Company A may include as an expense only the salary and benefits attributable to that portion of time...
actually spent on covered activities, regardless of the fraction of the gross earnings from the covered activities that is used by such personnel.

Assume the same facts as in Example 1, except that employees do not record their time as this would be excessively burdensome. Therefore, the way Company A records personnel costs does not allow for an accurate allocation of personnel costs and expenses among activities. The portion of the salary and benefits of such employees that may be allocated to Export Services Revenue is $80,000, determined by multiplying the costs of such personnel ($120,000) by a fraction, having as its numerator the gross annual revenue of the activity covered by the Executive Decree ($200,000) and as its denominator the total gross revenue of all activities performed using such personnel ($300,000).

(c) In the case of Promoter Services, for purposes of determining income from Export Services, the DDEC Secretary or the Secretary of the Treasury may assess whether the provider of Promoter Services and its client or consumer unreasonably delayed the occurrence of one or more of the three events described in Section 1020.03(a)(3)(i) through (iii) of the Code, in order to have more of the Promoter Services qualify as performed during the twelve (12) month period provided within Section 1020.03(a)(3) of the Code. In the event that such delay is determined to have been unreasonable, it shall be determined that the Promoter Services revenue shall be that which would have been generated within the twelve (12) month period provided by the Code, culminating during the date in which such event would have occurred, had it not been unreasonably delayed.

Section 1020.03(a)(4)-1. - New Business in Puerto Rico.

(a) Means, for purposes of determining whether an activity qualifies as Promoter Services, an Entity that meets all of the requirements of the definition of this term under the Code, as clarified below:

(1) During the two (2) year period beginning one (1) year before and ending one (1) year after the commencement of operations in Puerto Rico of the Entity that received the Promoter Services from an Eligible Business, the Entity must have been an Unrelated Party of any other Entity that had an office or other fixed place of business in Puerto Rico. A home will be considered an office for purposes of this definition as long as it is used to conduct any business activity.

(2) No more than five percent (5%) of the Shares of the Entity that received Promoter Services from an Eligible Business must be owned directly or indirectly by one or more Domestic Persons during a period of two (2) years prior to the commencement of operations in Puerto Rico.
In exercising his discretion, the DDEC Secretary may determine that persons who newly establish residence in Puerto Rico with the intention of starting a New Business in Puerto Rico and progress without interruption toward the commencement of operations of such New Business in Puerto Rico meet the requirement that they have not been Residents of Puerto Rico as of the date of commencement of operations.

The requirements of this section (a)(2) shall not apply to Entities that are government entities or their instrumentalities.

The Entity receiving Promoter Services from an Eligible Business must initiate commercial operations in Puerto Rico in whole or in a material part as a result of the Promoter Services. The determination of whether the initiation of such transactions is attributable in whole or in a material part to the receipt of such Promoter Services will be based on the following criteria:

(A) New Business contacts in Puerto Rico prior to receiving the services in question, either through contact with the Government of Puerto Rico and its agencies, instrumentalities and municipalities to explore business opportunities in Puerto Rico, contact with private entities for the purpose of locating property, plants, equipment, supplies and/or employees for a business in Puerto Rico, or retaining other service providers in Puerto Rico to assist with the analysis of opportunities in Puerto Rico;

(B) Whether the New Business in Puerto Rico was considering initiating operations in Puerto Rico prior to receiving the services in question and the status of such consideration at the time the first Promoter Service was provided;

(C) If the New Business in Puerto Rico had committed to initiate operations in Puerto Rico before receiving the services in question, either by formal steps taken by the Entity (such as approval by the Board of Directors to initiate operations in Puerto Rico) or by entering into binding contracts related to the initiation of operations in Puerto Rico;

(D) The nature of the services provided and the connection between those services and the start of operations in Puerto Rico by the New Business in Puerto Rico;

(E) Any other factor that tends to indicate that the services in question were a direct and proximate cause of the start of operations in Puerto Rico;

(F) There may be more than one Person who has a Promoter Services Decree for whom the commencement of operations of a New Business in Puerto Rico is attributable in whole or in a material part to their services. That fact shall not prevent each Promoter that complies with
the requirements of this Regulation with respect to such New Business in Puerto Rico from claiming the benefits of this Code. The Entity receiving such Promoter Services must initiate commercial operations for profit in Puerto Rico.

(i) A business shall be considered to be engaged in commercial operations for profit when its activities are carried out for customers in the normal course of business, in such quantities and at such prices as to justify the operation of the business as a going concern. A small or medium-sized business will meet this requirement if the amount and price of its activities are commercially reasonable for a business of its size and such business can qualify even if it is operated intermittently throughout the year. However, the rental of residential or commercial property in accordance with the requirements described in this Regulation shall be deemed to be on a commercial scale.

(ii) A business shall be deemed to be substantially and continuously operational for a reasonable period of time when the business activity is regularly conducted for at least six (6) months of the Tax Year or for such other time as the DDEC Secretary may approve, based on the best economic and social interests of Puerto Rico. However, a business that rents commercial or residential real estate shall be considered to be conducted on a commercial scale if it meets the requirements for such business described in Article 1020.03(a)(7)-1 of these Regulations.

(4) An applicant for a Decree under the Code must describe in its application the type of services it intends to provide and its bona fide projection of the types of business it intends to pursue to provide those services. The fact that a Decree is issued based on such description shall not constitute a decision or other binding determination that the services, once provided, will qualify under the Decree as Promoter Services provided to a New Business in Puerto Rico; nor shall a Decree be necessarily invalid if its holder ultimately promotes other types of businesses from those originally identified as its objectives.

(5) It shall be the duty of the Exempt Business with a Promoter Services Decree to file with the DDEC Secretary an affidavit on the form provided by the DDEC Secretary supporting such treatment and addressing the standards described above; it shall also file a statement from the New Business on a form provided by the DDEC Secretary indicating that it commenced operations in Puerto Rico in whole or in material part as a result of the services provided by the holder of the Decree. The Decree holder shall attach both declarations to any tax return in
which he requests eligibility for the tax rate provided by the Code and its Decree with respect to the income from such services.

**Article 1020.03(a)(4)-2. - Unrelated Party.**

(a) For purposes of Section 1020.03(a)(4) of these Rules, the term "Non-Related Party" means a Person who is not a "Related Party" as defined in Section 1010.05(b) of the Internal Revenue Code, an Entity that is not an Affiliate, or an Entity that is not a member of a "Related Party Group" as defined in Section 1010.05(a) of the Internal Revenue Code.

**Section 1020.03(a)(6)-1. - Promoter.**

(a) Means a Person who has a Promoter Services Decree under Section 2031.01 of the Code; provided that a Qualified Promoter shall have the definition set forth in paragraph (a) of Article 2034.01(a)(1)-1 of these Regulations.

**Section 1020.03(a)(7)-1. - Promotor Services.**

(a) Promoter Service means any eligible activity provided directly or indirectly to a Person who is a customer and is not affiliated nor related to the service provider for the purpose of assisting that customer to (1) evaluate whether to establish or (2) establish a New Business in Puerto Rico, provided that such service also qualifies as an Export Service, as defined below, regardless of whether such services have a Nexus to Puerto Rico. A service does not qualify as a Promoter Service unless the client establishes a New Business in Puerto Rico. For purposes of determining whether a service is a Promoter Service, the definition of Export Service shall apply regardless of whether the customer to whom such service is provided will have a Business Connection with Puerto Rico after the establishment of a New Business in Puerto Rico. (1) For these purposes, services provided in connection with the sale of commercial and residential real estate to a Foreign Person who does not own real estate in Puerto Rico and has no Business Connection with Puerto Rico at the time of the sale transaction, may qualify as a Promoter Service if the buyer intends to operate a New Business in Puerto Rico on a commercial level while located in Puerto Rico and registers his business as required by Puerto Rico law. This type of business does not have to be conducted from the Person's home. The leasing activity of the property purchased by the Foreign Person, who does not own any real estate in Puerto Rico and has no Business Connection with Puerto Rico, for commercial or residential use to Non-Related Parties, for at least ten (10) months in each calendar year may constitute a sufficient New Business in Puerto Rico to qualify as such. Leasing
activity shall include both the leasing of the property and the offering of such property for lease on a regular and continuous basis, but shall not include the use of such property by the Foreign Person for personal or commercial purposes while offering it for lease.

(2) If the Promoter Services are provided in connection with the sale of commercial or residential real estate, the Promoter must obtain from the New Business in Puerto Rico or individual a signed and sworn certification that it meets the criteria set forth in the two preceding paragraphs. Such certification shall be updated and submitted annually and shall be attached to the Promoter's tax return.

(3) The provisions of this subsection may be illustrated by the following examples.

Example 1 - Law Firm A has a Decree under Chapter 3 of Subtitle B of the Code. Law Firm A provides services related to the applicable laws and regulations of Puerto Rico to Company B to assist Company B in deciding whether to start a New Business in Puerto Rico. Company B begins a New Business in Puerto Rico, in whole or in part material, as a result of the services provided by Law Firm A. The legal services provided by Law Firm A to Company B may qualify as Promoter Services since Company B's Puerto Rico Liaison in establishing its New Business in Puerto Rico is ignored in determining whether the services are Promoter Services.

Example 2. - Assume the same facts as in Example 1, except that Company B currently owns and operates a business from a fixed place of business in Puerto Rico. Legal services provided by Law Firm A to Company B do not qualify as Promoter Services since Company B is not establishing a new business in Puerto Rico.

Example 3. - Assume the same facts as in Example 1, except that Company B decides not to start a new business in Puerto Rico. Legal services provided by Law Firm A to Company B do not qualify as Promoter Services.

Example 4. - Company C promotes the purchase of real estate in Puerto Rico. It assists persons outside of Puerto Rico with the acquisition of real estate in Puerto Rico for the purpose of leasing such property to others. As part of its services, it assists Person D, who is a non-resident of Puerto Rico and has no Business Connection with Puerto Rico, in the purchase of a beach house in Puerto Rico. Persona D rents and/or makes the beach house available for rent to unrelated third parties during 10 months of the year. Person D uses the beach house for personal purposes for the remaining two months. Company C's activities to assist with the purchase of the beach house may qualify as Promoter Services.
Example 5. - Assume the same facts as Example 4, except that Person D allows her children to rent the beach house for 10 months of the year. Company C's activities to assist with the purchase of the beach house are not Promoter Services since the purchased property is leased to a related party.

Example 6. - Company E promotes the purchase of residential real estate in Puerto Rico, which helps people outside of Puerto Rico with the acquisition of residential real estate in Puerto Rico. As part of its services, it assists Person F, who is an individual, in the purchase of a second home to be used as a personal residence in Puerto Rico. Person F does not intend to establish a new business in Puerto Rico. Company E's activities to assist with the purchase of the second home are not Promoter Services.

Example 7. - Assume the same facts as in Example 6, except that Person F registers to operate and comes to operate a business that provides investment management and financial advice of Puerto Rico at the commercial level. Company E's activities to assist with the purchase of the second home may qualify as Promoter Services.

Section 1020.03(a)(7)-2. - Business Connection.

(a) For purposes of Section 1020.03(a)(7)-1 of these Regulations, the term "Business Connection" means that a Person has a Business Connection with Puerto Rico if they have an office or other fixed place of business in Puerto Rico. A home shall be considered an office for purposes of this definition as long as it is used to conduct any business activity.
SUBCHAPTER D. - DEFINITIONS APPLICABLE TO FINANCE, INVESTMENT AND INSURANCE

Section 1020.04(a)-1. - Assets.

(a) Means:

(1) Cash and deposits;

(2) Investments, such as senior credit or debt instruments, equity and other securities, tangible personal property subject to lease, mortgage and real estate loans, securities lending, repurchase transactions, reverse repurchase transactions, dollar roll transactions and forecasting strategies;

(3) Dividends declared and not received;

(4) Overdue or accumulated interest;

(5) Accounts and reinsurance receivable on paid losses and related expenses; and

(6) Any other assets that the DDEC’s Secretary allows after consulting with the Secretary of Finance

Section 1020.04(a)-2. - Limited Partners.

(a) Means any partner who is not a Managing or General Partner.
SUBCHAPTER E. - DEFINITIONS APPLICABLE TO VISITOR ECONOMY

Section 1020.05(a)(1)-1. - Nautical Tourism Activities.

(a) Means the set of services to be provided in contact with water to nautical tourists, which include, but are not limited to:

(1) The lease or charter to tourists of nautical tourism boats for leisure, recreation or for educational purposes by tourists, including excursions;

(2) The leasing of small boats, watercraft, kayaks, sailboats or other similar vessels, whether motorized or non-motorized, to Tourists, as established by Article 1020.05(a)(11)-1 of these Regulations, and any other criteria adopted pursuant to Law No. 241-2010, as amended, known as the "Water Tourism Act of 2010", any other successor or analogous law, and the regulations issued under it; and

(3) The operation of an Integrated Boat Leasing Program.

1020.05(a)(2)-1. - Agro-hosting.

(a) Means any accommodations that is established in a farm by a Bona Fide Farmer, with the purpose of lodging visitors in transit to enjoy contemplating nature or participating in activities related to agricultural activity or Agritourism. The term also includes any Lodge that provides an agricultural experience in combination with the accommodation service.

(b) Requirements. - The Lodge must:

(1) Have a minimum of three (3) Rooms that must be located within the premises where an agricultural activity is carried out, in the first instance, by a Bona Fide Farmer, agricultural producer or a Person in collaboration with one of the first mentioned, interested in developing an agritourism project, that provides some type of agricultural experience to their Guests;

(2) Have the certification of the Green Lodging Program of the Tourism Office, and with the applicable regulations.

(c) The Lodge may operate under any of the categories of Lodgings recognized by the Tourism Office, as long as it complies with the requirements of an agritourism project, as defined by the rules and regulations applicable to an Agrohostel.
**Article 1020.05(a)(3)-1. - Agritourism.**

(a) Means the set of activities specifically organized by a Bona Fide Farmer in integration with his main activity, to which the Tourists are invited; and these constitute other services by means of payment.

(b) The following Tourism Activities will be considered examples of Agritourism:

1. Agro-hosting;
2. Agro Thematic park; or
3. Food processing plants.

(c) The term may include the production of vegetables, fruit trees, coffee plantations, food processing plants, animal husbandry, aquaculture, hydroponics, fishing, beekeeping, among others established by the DDEC Secretary through regulations, administrative determination, circular letter, information bulletin or any other official communication of a general nature.

(d) Agritourism will represent an additional income to the existing agricultural activity.

(e) Requirement. - The natural and cultural resources where the Tourist Activity takes place must be preserved, as well as the opportunity to experience and taste different fruits, local products, local cuisine, learn about the process behind each food and live the culture and traditions of Puerto Rico.

**Article 1020.05(a)(4)-1. - Bed and Breakfast (B&B)**

(a) Means the accommodation that belongs to the program of lodging and breakfast created by the Office of Tourism for accommodations of special residential-tourist nature, where the residence is occupied permanently by a Person or family.

(b) Requirements. - In addition to the requirements set forth in Article 2051.01(b)-8 of these Regulations, the Lodge operating under the Tourism Office program shall:

1. Have a minimum of three (3) Rooms and a maximum of six (6) Rooms available for Guests for daily rental;
2. Include breakfast service in the rate;
3. Be operated by the permanent resident of the accommodation;
4. Have permanent housing units and minimum facilities to provide quality housing and food services; and
5. Offer the Guest a personalized experience and cultural exchange with the resident and the local community.
Article 1020.05(a)(5)-1. - Guesthouse.

(a) Means any building, part of a building or group of buildings approved by the Tourism Office that will operate for tourist purposes.

(b) Requirements. - In addition to the requirements set forth in Article 2051.01(b)-9 of these Regulations, the Lodge operating under the Tourism Office program shall:
   (1) Consist of no less than seven (7) Guest Rooms in transit;
   (2) Provide administrative staff for twenty-four (24) hours a day;
   (3) Provide a private bathroom per room and maid service; and
   (4) Provide, at its discretion, the necessary rooms for the owner or operator's home.

Article 1020.05(a)(7)-1. - Condo Hotel.

(a) Means the set of residential units, Tourist Villages, building, or group of residential buildings converted into the horizontal property rule or to the regime of the Condo Hotel Law of Puerto Rico and that comply with the requirements of a Hotel, in which no less than fifteen (15) of the Rooms, apartments or villas will be dedicated to the accommodation of transient persons at all times by means of an Integrated Condo Hotel Leasing Program.

(b) Requirement. - For purposes of the Code and these Regulations, only Units with a private bathroom and entrance will be considered.

(c) The building or group of residential buildings does not have to have been subject to the same horizontal property rule or to the rule of the Puerto Rico Condo Hotel Law, as long as it is operated under the same Integrated Condo Hotel Lease Program and independently complies with the requirements of a Hotel.

(d) There may be more than one Integrated Condo Hotel Lease Program in a structure, building, villa, or set of these that is a Condo Hotel, in which case the owner of a Unit may change the Integrated Condo Hotel Lease Program, as long as they manage an amendment to their Decree to reflect the change of their Unit to the master Decree of the other Integrated Condo Hotel Lease Program and the change is reflected in the master Decree.

(e) For purposes of the Code and these Regulations, the phrase "independently meets the requirements of a Hotel" means that it has all the physical facilities, provides the service of a Hotel and acts in accordance with the provisions of these Regulations. The owners of the individual Units that make up the Integrated Condo Hotel Lease Program may have an area to which only they have access to maintain their personal belongings ("owner's closet").

(f) Examples. - The provisions of this Article are illustrated by the following examples.
A villa in a development that meets all the requirements of a Condo Hotel has
3 rooms, all with private baths and entrance. If the owner of the villa operates
under an Integrated Condo Hotel Lease Program, it will be understood that the
villa contributes 3 Rooms to the requirement of 15.

An apartment in a development that meets all the requirements of a Condo
Hotel has 3 rooms, all with private bathrooms, but a single entrance for all the
rooms. For the purpose of meeting the 15 Unit requirement, the apartment will
be counted as 1 Unit.

Article 1020.05(a)(7)-2. - Fines and Revocation for Failure to Comply with Decree.

(a) General rule. - Any Investor who owns a Condo Hotel Unit and wishes to reserve it
for personal use for more than ninety (90) days in a Taxable Year, or use it on a walk-
in basis for more than sixty (60) days in a Taxable Year, shall pay, for each day in
excess, the prevailing daily rate and related charges applicable to transient Guests at
the time they use the Unit. The Condo Hotel Operator shall be responsible for the
collection of the fee.

(b) Use of the unit by the owner. - The ninety (90) days of each Taxable Year during
which each Investor in a Condo Hotel has the Unit at its disposal are determined by
the operator according to the needs of the business and do not have to be used
consecutively.

(c) Use of the unit by the owner without reservation. - The owner of a Unit of a Condo
Hotel also has sixty (60) additional days to the Tax Year, during which, as long as the
turnover of the Condo Hotel allows it, he may use the Unit without booking it in
advance ("walk-in"). To make use of this privilege the owner of the Unit must contact
the Operator of the Condo Hotel after eleven o'clock in the morning (11:00 AM) of the
day in which he wishes to use the Unit to corroborate that it has not been previously
reserved for that day. The Condo Hotel Operator shall charge the owner of the Unit
who uses it under the provisions of this section (c), a reduced daily rate, to cover
maintenance expenses.

(d) Fine. - The DDEC Secretary shall impose a fine to any Operator who allows an
Investor to reserve and use its Unit for more than thirty (30) days, or to use it as a
"walk-in" for more than sixty (60) days without complying with the provisions of
these Regulations. The fine shall be equivalent to three times the daily rate, multiplied
by each day in which the Unit was used in excess of the number of days allowed,
without paying the prevailing daily rate.

(e) Revocation. - The Decree of an Operator or Investor, as the case may be, who incurs
three (3) or more violations of this Article, may be revoked by the DDEC Secretary at
his discretion. Likewise, an Operator's Decree that alters its books to avoid the
application of this Article shall be summarily revoked.
Article 1020.05(a)(7)-3. - Integrated Program for Leasing a Condo Hotel.

(a) Means the leasing program where there is a Person who operates a business that is dedicated to leasing the Units of the building or group of residential buildings, structures or villas subject to a horizontal property rule or rule of the Puerto Rico Condo Hotel Law, which will be dedicated to the lodging of natural persons who are non-residents.

(b) The term also includes an Integrated Lease Program operated by a Hotel Management or Operation Entity, or any Condo Hotel Program, regardless of how the owners of the Units decide to distribute the rental proceeds. It does not satisfy this requirement if there is a building or group of residential buildings, structures or villas where the owners of the Units will devote them to the accommodation of individual non-residents.

(c) Cessation of the program. - In those cases in which the Operator of the Integrated Condo Hotel Lease Program ceases to operate the program, the Operator must inform the DDEC Secretary in writing within thirty (30) days of the cessation.

1. Extension of benefits. - The owners of the individual Units that make up the program will enjoy a grace period of three (3) months from the date of termination of the program, to manage another Condo Hotel Program under the same Decree, whether it is a newly created program or an existing program in the same premises, without losing the benefits of its Decree. The DDEC Secretary may extend the grace period upon written request from the owners of the Units, provided that they are actively managing another Condo Hotel Program, and the DDEC Secretary determines that it is in the best interest of the tourism industry to grant it.

2. Entry during the cessation of the program. - Any income derived from the rental of the Unit during the time that elapses between the date of termination of the Condo Hotel Program in which the Unit was incorporated and the date of entry into the new program, provided that it occurs within the term of the grace period, shall be considered Tourist Development Income and shall be eligible for the exemptions of the Code. However, in order for the entry to be considered Tourist Development Income, the owner of the Unit shall have paid the occupancy tax required by Law No. 272-2003, as amended, known as the "Commonwealth of Puerto Rico Occupancy Tax Law", and the Unit shall have been rented for tourism purposes.

3. Termination of benefits. - If the grace period elapses without the Unit being added to a new Condo Hotel Program, the Decree for the Unit will be deemed terminated with retroactive effect to the date of termination of the old Condo Hotel Program, and the credit will be recovered in those cases where the Unit owners have received the Tax Credit.
(4) **Extension.** - The extension request referred to in paragraph (1) of this subsection (b) shall be filed through the Portal created by the Incentive Bureau pursuant to Section 6011.03 of the Code.

(d) For purposes of the Code and these Rules, when the term "Condo Hotel Program" is used, it refers to "Integrated Condo Hotel Rental Program".

**Article 1020.05(a)(8)-1. - Total Cost of Tourism Project.**

(a) The term "Total Cost of the Tourism Project" shall have the same meaning as provided in paragraph (8) of Section 1020.05(a) of the Code.

(b) **Mixed use.** - For purposes of the Eligible Tourism Investment Credit, a mixed-use development, such as a building that includes a residential component, a Hotel, a Condo Hotel, or commercial space, the Total Cost of the Tourism Project shall include, all expenses listed in subsections (i) through (x) of paragraph (8) of Section 1020.05(a) of the Code. For purposes of this Article, the development of a mixed-use Tourism Project shall have as a tourism development component at least seventy percent (70%) of the total area of the Tourism Project, computed not including common areas of the Tourism Project.

**Article 1020.05(a)(11)-1. - Nautical Tourism Boats.**

(a) Means any vessel, motor or sail, that has the capacity to transport six (6) or more passengers, operated by a Person dedicated to the business of the excursion or available for rent to be destined for a Nautical Tourism Activity, including Mega Yachts for Tourist Purposes, with the exception of the time required for routine maintenance and repair, for the period of the Decree and when the DDEC Secretary determines that the operation is convenient for the development of Tourism in Puerto Rico.

(b) The Nautical Tourism Boats will have to possess a certification granted by the Tourism Office in accordance with Law No. 241-2010, as amended, known as "Nautical Tourism Act of 2010", as well as any other successor or analogous laws and regulations published under them.

(c) For purposes of the Code and these Regulations, the term includes Tourist Boats.

(1) **Tourist boats.** - Means any motor or sail boat that is not owned, directly or indirectly, by a Domestic Person, for recreational and non-profit use, that intends to stay in Puerto Rico for more than twenty-four (24) hours, with the intention of participating in nautical events, visiting one or more places of tourist interest or needing maintenance or repair of the boat. The vessel must be documented by the United States Coast Guard or a foreign flag.
The term also includes any other definition adopted through Law No. 241-2010, as amended, known as the "Marine Tourism Act of 2010", any other successor or analogous law and the regulations published under it.

**Article 1020.05(a)(11)-2. - Certification Requirement.**

(a) In the case of a vessel that is part of an Integrated Boat Program, the Decree shall be subject to the vessel maintaining a current certification granted under Law No. 241-2010, as amended, known as the "Nautical Tourism Law of 2010", or any other successor or analogous law and regulations issued under it.

(b) In the event that a vessel that is part of an Integrated Boat Program is in breach of the provisions of Act No. 241-2010, as amended, known as the "Marine Tourism Act of 2010", or any successor or analogous law and the regulations enacted thereunder, the Unit shall be deemed to have been withdrawn from the Integrated Boat Lease Program.

**Article 1020.05(a)(12)-1. - Reserved.**

**Article 1020.05(a)(13)-1. - Hotel.**

(a) The term "Hotel" shall have the same meaning as set forth in paragraph (13) of subsection (a) of Section 1020.05 of the Code, except that it shall comply with the requirements of Section 2051.01(b)-14 of these Rules.

(b) All facilities owned, associated with, or operated by a Hotel, which are comprised within a Hotel that is an Exempt Business or comprised within a Resort, and which provides additional Tourist attractions, including swimming pools, restaurants, nightclubs, retail spaces, casinos, relaxation and massage ("spa") centers, and Medical Treatment Clinics, shall be considered part of a Hotel, provided that the cost of acquisition or construction does not exceed forty-nine percent (49%) of the Total Cost of the Tourism Project. Any Lodging, Puerto Rican Parador, Tourism Villa or Resort with a component that complies with the requirements of a Hotel, shall be considered as such for purposes of the Code and these Regulations.

(c) **Example.** - The provisions of this Article are illustrated by the following example.

(1) "A" proposes the construction of a hotel that will have 20 rooms and several amenities, including a physical therapy clinic. The breakdown of expenses for the Total Cost of the Tourism Project reveals that the Rooms and amenities require an investment of $50,000, while the physical therapy clinic requires an investment of $50,000. Since the investment for the construction of the clinic exceeds 49% of the Total Cost of the Tourism Project, the clinic cannot be considered as part of the Hotel.
Article 1020.05(a)(14)-1. - Income from Reinvestment in Puerto Rico of Profits from an Exempt Business.

(a) Means the interest generated on money deposited in a branch of a Financial Institution in Puerto Rico authorized to receive deposits in Puerto Rico ("depository financial institutions"), which has been reserved in the books of the Exempt Business for the improvements or expansions of a Tourist Activity, according to generally accepted accounting principles or "GAAP". Money deposited for improvements or expansions must be used in full within three (3) years of deposit at the Financial Institution. If not used within the term, the Licensee shall amend its income tax return and tax the interest earned on that portion of the money deposited that was not used for improvements or expansions within the three (3) year period.

(b) The term shall also include interest generated on money deposited in a branch in Puerto Rico of a Financial Institution authorized to receive deposits in Puerto Rico ("depository financial institutions") from accounts that the Exempt Business is required to maintain by the Financial Institution that provided the financing for the Tourism Project as a condition for providing the financing.

(c) The proportion of the interest that is considered Income from Reinvestment in Puerto Rico of the Exempt Business' Earnings is that proportion of the interest attributable to the Tourist Activity and not to another activity of the Exempt Business.

(d) The Secretary of Finance shall determine the procedure to be followed to inform the origin of the exempt interest by means of regulations, administrative determination, circular letter, information bulletin or any other official communication of a general nature.

(e) Reinvestment of Tourism Development Income - Means the reinvestment of the profits derived from Tourism Development Income by an Exempt Business in Tourism Activity in Puerto Rico, equal or different from that of the Exempt Business, which will produce additional Tourism Development Income.

Article 1020.05(a)(15)(i)(C)-1. - Eligible Tourist Investment in a Condo Hotel

(a) Means the amount of cash that has been contributed to the Eligible Business or Exempt Business, as the case may be, under Chapter 5 of Subtitle B of the Code, to be used in a Tourist Activity in exchange for a Unit in a Condo Hotel, provided that the Unit is dedicated to a Condo Hotel Program for a period of ten (10) years and for nine (9) months of each Contribution Year, and the owner has full ownership of the Unit.

(b) Certification. - The Operator of the Condo Hotel shall annually certify to the DDEC Secretary and the Secretary of the Treasury, under penalty of the fine provided for in Article 1020.05(a)(7)-2 of these Regulations:
(1) The number of days during which the Unit was used by its owner;
(2) The number of days during which the Unit was rented to a third party under a Condo Hotel Program; and
(3) The remuneration paid to the unit owner for the use of his unit under a Condo Hotel Program.

(c) **Value of the investment.** - In determining the value of an Eligible Tourist Investment made by an acquirer of a Unit in a Condo Hotel, only the amount in cash that the acquirer will contribute for the purchase of the Unit will be considered, including the cash used by the acquirer for the purchase of furniture, facilities and equipment required by the Promoter or the operator of the Condo Hotel Program, in order for the Unit to be part of the Condo Hotel Program. Mortgages on the Unit or the value of a promissory note contributed in exchange for the Unit may not be considered part of the value of the Eligible Tourist Investment. The cash contribution will be considered as an Eligible Tourist Investment only if:

1. The investment is made based on an appraisal of the Unit performed by an appraiser duly licensed in Puerto Rico;
2. The Unit has never been used before in a Condo Hotel Program; and
3. The Unit is acquired from the Promoter.

**Article 1020.05(a)(15)(ii)(B)-1. - Eligible Tourist Investment in the case of Contribution of Existing Land or Structures.**

(a) The term "Eligible Tourism Investment", as defined in paragraph (15) of subsection (a) of Section 102.05 of the Code, means the value of existing land and structures contributed to an Eligible Business or Exempt Business, as the case may be, that subsequently receives a Decree under Chapter 5 of Subtitle B of the Code, to be used for a Tourism Activity in exchange for Shares in the Eligible Business or Exempt Business, as the case may be.

(b) **Value of the contribution.** - The value contributed of the land or existing structure will be the fair market value, reduced by the balance of the mortgages that encumber the land, or existing structure, at the time of contribution. The fair market value will be determined based on an appraisal of the existing land or structure by one (1) or more professional appraisers duly licensed in Puerto Rico. The DDEC Secretary shall approve the determined net value of the land or existing structure before it is contributed to the Eligible Business or Exempt Business, as the case may be, and shall so state in the Decree.

(c) **Contribution through a lease contract.** - In case of contribution of land to the Eligible Business or Exempt Business, as the case may be, through a lease agreement, of surface rights or any legal figure of a similar nature for a nominal value (for example, a lease fee of one dollar ($1) per Tax Year), whose term exceeds thirty (30)
years, in exchange only and exclusively for Shares, the DDEC Secretary reserves the power to determine whether such contribution will be considered an Eligible Tourist Investment or not, according to the circumstances of the specific case by means of the fair market value as assessed by a licensed appraiser in Puerto Rico, reduced by the balance of the mortgages that encumber the contributed right.

Article 1020.05(a)(15)(vii)-1. - Eligible Excess Investment in Tourism.

(a) In any case in which an interest in making an Eligible Tourist Investment in an Eligible Business or Exempt Business exists, as the case may be, in excess of the amount provided in the Decree, an amendment to the Decree will be required to reflect the additional capital contribution.

Article 1020.05(a)(15)(vii)-2. - Eligible Tourism Investment by the Government of Puerto Rico.

(a) Agencies that make an investment to cover the expenses incurred in the design and construction of infrastructure work for the benefit of the Eligible Business or Exempt Business, as the case may be, in exchange for Shares in the Eligible Business or Exempt Business, as the case may be, will have the option to directly cover the costs without the amount of the contribution losing its character of Eligible Tourism Investment.

Article 1020.05(a)(15)-1. - Eligible Tourist Investment in Shares.

(a) For purposes of paragraph (15) of subsection (a) of Section 1020.05 of the Code, the term "Shares" means Shares issued in exchange for the contribution of cash or land, as set forth in subparagraphs (i) and (ii) of paragraph (15) of Section 1020.05 of the Code, shall be common stock, preferred stock, or preferred stock convertible into common stock in the case of corporations, expense and income shares in the case of partnerships and memberships. The terms and conditions of "Shares" shall be determined by the Entity, providing that only those shares that are considered equity according to generally accepted accounting principles or "GAAP" shall be considered "Shares".

(b) Except as provided in subparagraphs (iii) and (iv) of paragraph (15) of Section 1020.05 of the Code, no cash or land contribution made in exchange for Shares with rights so restricted that they are no more than evidence of indebtedness of the Entity
under generally accepted accounting principles or "GAAP" shall be an Eligible Tourist Investment.

(c) In addition, except as provided in paragraphs (15)(iii) and (iv) of Section 1020.05 of the Code, any contribution, whether in land or cash, to a Person shall be in exchange for Shares that are deemed to be equity, and not in exchange for Shares so limited that they are nothing more than evidence of indebtedness of the Person, in each case in accordance with generally accepted accounting principles or "GAAP".

(d) The DDEC Secretary will have the power to determine on a case-by-case basis if an investment does not meet the requirements of an Eligible Tourism Investment.

**Article 1020.05(a)(17)-1. - Tourist Marina.**

(a) Shall have the same meaning as set forth in paragraph (17) of subsection (a) of Section 1020.05 of the Code, provided that, the Tourist Marina comply with the following requirements:

1. Will be mainly service internal and external tourism;
2. Derive substantially all of their income from the activities listed in paragraph (17) of Section 1020.05(a) of the Code; and
3. They shall allocate more than fifty percent (50%) of the spaces in the Tourist Marina for rental boats for the activities of paragraph (17) of subsection (a) of Section 1020.05 of the Code, thus safeguarding that they are not used permanently for private use.

(b) For purposes of the Code and these Regulations, the term "substantially all of your income" means at least eighty percent (80%) of the Person's gross income for the Taxable Year comes from activities listed in paragraph (17) of section 1020.05(a) of the Code.

(c) **Additional requirement.** - The installation and equipment of the Tourist Marina will comply with the requirements set forth by the United States Coast Guard, the Department of Natural and Environmental Resources of Puerto Rico, the United States Army Corps of Engineers and any applicable regulations for the operation of a Tourist Marina and vessels. These will include berthing facilities, fuel service, food sales and equipment to users. They may also have sail or motor boat equipment, with or without crew, to rent to local or foreign tourists for tours, fishing or other marine sports and promote the service and docking of Visitor boats in specialized publications regarding fishing sports, water sports or tourism in general.

(d) **Ownership.** - For purposes of subsection (17)(a)(ii) of Section 1020.05 of the Code, the requirement that ownership and possession of a vessel of foreign registration or documented by the United States Coast Guard reside with a Foreign Person shall not ultimately fall to a Domestic Person.
(e) **Limitation.** - The income generated by the services provided to a Person who keeps his or her boats in the Tourist Marina permanently for his or her private use will not be considered Tourist Development Income.

(f) Every marina on the municipality islands of Vieques and Culebra shall be considered a tourist marina for purposes of the Code and these Regulations.

**Section 1020.05(a)(19)-1. - Existing Tourism Business.**

(a) Means a business that is engaged in a Tourism Activity at the time an application for incentives is filed under Chapter 5 of Subtitle B of the Code, otherwise it would not qualify as a New Tourism Business, and undertakes a substantial renovation or expansion of existing physical facilities to be used in Tourism Activity.

(b) **Renovation or Substantial Expansion.** - Means:

1. An investment aimed at renewing, remodeling or expanding existing physical facilities, provided the investment:
   - (A) Has an economic life of at least five (5) years; and
   - (B) Whether it is in capitalizable assets, whether they are movable or immovable, either by their nature or destination.

2. The DDEC Secretary shall determine the amount at which the Substantial Renewal or Expansion shall be made in each individual case.

3. In the specific case of an Exempt Business dedicated to Nautical Tourism, the following will be considered for the purposes of this definition:
   - (A) An investment of more than fifty percent (50%) of the value of existing personal property inventory that is made in replacement of personal property; or
   - (B) An investment greater than twenty-five percent (25%) of the value of the existing inventory of personal property that is made for the purpose of increasing the inventory of personal property.

4. In the specific case of an Eligible Business that requests a Decree on the payment of property tax, taxes, municipal patent and use and consumption tax only; that is, that excludes exemption on the payment of income tax, the DDEC Secretary shall determine the type of investment that the Exempt Business or Eligible Business, as the case may be, shall make to offer a product in optimal operational conditions and that investment shall be the one that shall be considered as Renewal or Substantial Expansion for purposes of the Code and these Regulations.

(c) **Examples.** - The provisions of this Article are illustrated by the following examples.

1. A new wing or annex to a building, the reconstruction or remodeling of a kitchen or activity room, or the installation of a new elevator system are
projects that are included in the definition of Renovation or Substantial Expansion for purposes of the Code and these Regulations, provided they meet minimum cost requirements to be determined, on a case-by-case basis, by the DDEC Secretary.

(2) "A" is a 15 room Lodging that is in an unstable economic situation, it requests a Decree. "A, being unable to obtain the necessary funding to make a Substantial Renewal or Expansion for the purposes of paragraph (1) of subsection (b) of this Article, requests that it be granted exemption from the payment of property taxes, excise duties and patents only. The DDEC Secretary determines that, due to A's good physical condition, maintaining A in optimal operational condition requires only an investment directed to purchasing new televisions, curtains and bedding for each of its rooms. The DDEC Secretary may grant a Decree for A which excludes the exemption from the payment of income taxes, conditioning the exemption to A's compliance with the aforementioned conditions on the investment in personal property for its facilities.

(3) The Nautical Tourism Exempt Business "B" has been operating for several years as of the effective date of the Code with an inventory of 20 Nautical Tourism Boats available for rent. You wish to take advantage of the benefits of the Code. Due to the fact that ten of its boats are in a state of deterioration, it decides to replace the boats with ten new units. The DDEC Secretary may determine that a Renovation or Substantial Expansion was carried out since the investment was greater than 50% of the value of the existing inventory of movable property that is carried out by concept of replacement of movable properties.

(4) The Nautical Tourism Exempt Business "C" has been operating for several months as of the effective date of the Code with an inventory of 20 Nautical Tourism Boats available for rent. You wish to take advantage of the benefits of the Code. Because all of their boats are relatively new, they are all in excellent condition. You decide to acquire 5 additional boats. The DDEC Secretary may determine that he carried out a Renovation or Substantial Expansion since he carried out an investment greater than 25% of the value of the existing inventory of movable property that is carried out by concept of increase in inventory of movable properties.
Article 1020.05(a)(20)-1. - New Tourism Business.

(a) Means any business that is not operating at the time an application for a Decree is filed under Chapter 5 of Subtitle B of the Code and that will be engaged in a Tourist Activity, using physical facilities that have not been used in a Tourist Activity during the period of thirty-six (36) months prior to the date of filing of the application.

(1) In the case of an Eligible Business that is going to use physical facilities that have not been used in a Tourist Activity for a period of no less than eighteen (18) months prior to the filing of an application, DDEC Secretary may relieve them of the fulfillment of the mentioned requirement of thirty-six (36) months when, in his discretion, the best interests of Puerto Rico so require.

(2) Also considered as a New Tourism Business is any existing business or structure that, although it has been dedicated to a Tourism Activity during the referred period of thirty-six (36) months to complete the investment, is acquired or contributed to the Exempt Business for the purpose of having the structures that house it undergo a Substantial Renewal or Expansion of such magnitude that their cost exceeds one hundred percent (100%) of the purchase price of the business, or the fair market value at the date of the contribution, provided that the amount is fully invested within the thirty-six (36) month period from the date of the acquisition or contribution. The DDEC Secretary may extend the thirty-six (36) month period when, in his discretion, the best interests of Puerto Rico so require, but never for an additional period of more than thirty-six (36) months.

(3) In the case of a Condo Hotel, it will only qualify as New Business if the Units have not been previously used and were acquired from the Person who developed or built them, except when a Unit that has been leased by the Person who developed, built or substantially renovated it, prior to its initial sale by such Person, will qualify as New Business. The acquirer shall enjoy a grace period of four (4) months from the date of the deed of sale of the Unit to incorporate it into a Condo Hotel Program.

(4) A Condo Hotel Developer may also temporarily employ unsold Units of its Condo Hotel to a Condo Hotel Program without impairing the ability of subsequent purchasers of the Units to acquire the benefits of the Code, including the right to receive the Eligible Tourism Investment Credit. The Developer of a Condo Hotel that wishes to avail itself of this benefit must file a request for a Decree for purposes of obtaining solely and exclusively the benefits of exemption on the payment of income tax, property tax, patent and other municipal taxes. The Developer may not use any Unit for a period exceeding fifteen (15) years. The benefits of the Code and these Regulations available to the subsequent purchaser of any Unit used by the Developer under
the provisions of this paragraph shall be the same as those available if the Unit had never been used by the Developer as provided in Section 3010.01(a) of the Code.

(b) Examples. - The provisions of this Article are illustrated by the following examples.

(1) The CC Guest House, a 10-room guest house, was in operation from January 2012 to December 2017. Since its closure in 2017 the building where the Guest House was located has been closed. Mr. CC is interested in reopening the Guest House and in February 2020 he files a waiver request under the Code. The "new" Guest House CC will qualify as a New Tourism Business since it was not used for a Tourist Activity during the 36 month period prior to the filing of the Decree application. The Guest House will qualify as a New Tourism Business regardless of whether it enjoyed, from 2012 to 2017, a Decree under previous Incentive Laws.

(2) Developer ZZ developed and built the "Condo Hotel ZZ", a complex of 25 identical villas that were employed under the same Condo Hotel Program. ZZ sold 23 of the villas for $100,000 each, and although the villas were immediately employed under the program, ZZ was unable to sell the remaining 2 villas. It is in ZZ's interest to employ these last 2 villas under the Condo Hotel Program on a temporary basis, without undermining the possibility that the future purchaser of each Unit may take the tourism investment credit to which he would be entitled, the procedure to be followed will be:

(A) ZZ will file an application for a decree for each of the 2 villas in which it will request only exemption on the payment of taxes on income, on property and on patents and other municipal taxes;

(B) ZZ will dedicate the Units to the Condo Hotel Program temporarily; and

(C) When ZZ sells each of the 2 villas, the purchaser will file an application for a Decree as if he were obtaining a Unit that had not been used before the date of its acquisition.

Article 1020.05(a)(21)-1. - Puerto Rican Paradores.

(a) Shall have the same meaning as set forth in paragraph (21) of subsection (a) of Section 1020.05 of the Code, provided that it meet the requirements set forth in Article 2051.01(b)-10 of these Regulations, and:

(1) Provide accommodation outside the metropolitan area;

(2) Promote destinations that are representative of Puerto Rican history, culture, idiosyncrasy and hospitality;

(3) Have a minimum of seven (7) rooms and a maximum of seventy-five (75) rooms operating under the category of Hotel, Guest House or Tourist Villa.
Article 1020.05(a)(23)-1. - Timeshare and Vacation Club Plan ("Time Share").

(a) Means a plan that has a license issued by the DDEC according to the provisions of Law No. 204-2016, known as the "Puerto Rico Vacation Property Law", by which the right to use a Unit of a building, structure or villa is acquired for a limited period of time each Calendar Year. A contribution in cash or of any other nature made for the purchase of an interval or a right of use that forms part of a Timeshare and Vacation Club Plan ("Time Share") shall not be considered an Eligible Tourist Investment under the Code and these Regulations.

Article 1020.05(a)(24)-1. - Integrated Craft Leasing Program.

(a) Means a business dedicated to the rental of sailing or motor boats of thirty-two (32) feet or more in length for leisure or recreation. The phrase shall also include any Boat Program, regardless of how the owners of the boats decide to distribute the profits produced by the rental. It does not satisfy this requirement if there is a boat or group of boats where the owners of the boats rents to individual tourists.

(b) Eligible vessels must be available in Puerto Rico for charter under the program for a period of no less than six (6) months during each Taxable Year and must have all certifications required by federal and state laws for operation up to date, including certification required under Act No. 241-2010, as amended, known as the "Marine Tourism Act of 2010," any successor or analogous law, and regulations issued thereunder.

(c) For purposes of the Code and these Regulations, the phrase "through a Boat Program" means that there is a Person who operates a business that leases boats that will be used for Nautical Tourism.

(d) Cessation of the program. - In those cases in which the Boat Program Operator ceases to operate the program, the Operator must inform the Tourism Office in writing within thirty (30) days from the cessation.

(1) Extension of benefits. - The owners of the boats that compose the program will enjoy a grace period of three (3) months from the date of the termination of the program, to manage another Boat Program under its same Decree, whether for a new program or an existing program that operates the same Navy, without losing the benefits of its Decree. The DDEC Secretary may extend the grace period upon written request from the owners of the Units, provided they are actively managing another Vessel Program, and the DDEC Secretary determines that it is in the best interest of the tourism industry to grant it.
(2) **Entry during the cessation of the program.** - Any income derived from the rental of the vessel during the time that elapses between the date of termination of the Boat Program in which the vessel was incorporated and the date of entry into the new program, provided that it occurs within the term of the grace period, shall be considered Tourist Development Income and shall be eligible for the exemptions of the Code. However, in order for the entry to be considered Tourism Development Income, the owner of the vessel must have a license required by Law No. 241-2010, as amended, known as the "Nautical Tourism Law of 2010", any other successor or analogous law and the regulations issued under it, and the vessel must have been rented for tourism purposes.

(3) **Termination of benefits.** - If the grace period elapses without the vessel being added to a new Craft Program, the Craft Decree shall be deemed terminated retroactively to the date of termination of the old Boat Program, and the credit shall be recovered in those cases where the owners of the vessels have received the Tax Credit.

(4) **Extension.** - The extension request referred to in paragraph (1) of this subsection (d) shall be filed through the Portal created by the Incentive Bureau pursuant to Section 6011.03 of the Code.

(e) For purposes of the Code and these Regulations, when the term "Boat Program" is used, it means "Integrated Boat Leasing Program".

**Section 1020.05(a)(24)-2. - Integrated Boat Leasing Program Requirements.**

(a) The Decree of a boat owner who has been incorporated into a Boat Program shall be subject to keeping the boats available in Puerto Rico through the Boat Program for at least six (6) months of the Tax Year, for ten (10) years.

(b) The months in which the vessel will be used by the Craft Program will be determined at the beginning of the Tax Year by the Craft Program Operator and the vessel owner by agreement.

(c) Any disposal of the vessel by the owner shall be considered a removal of the vessel from the Boat Program, except in those cases where the Decree is transferred, in which case the subsequent purchaser shall keep the vessel in the Boat Program.
Article 1020.05(a)(27)-1. - Meeting to Present the Proposed Tourism Project ("Pre-Application Conference").

(a) The procedure for applying for a Decree under the Code begins with the Meeting to present the proposed Tourism Project ("Pre-Application Conference"), provided that any investment made prior to this will not be considered an Eligible Tourism Investment for purposes of the Code and these Regulations.

(b) During the Pre-Application Conference, the Eligible Business will submit to the Tourism Office an explanatory memorial describing the proposed Tourism Project and the petitioner will be given a copy of the Code, these Regulations and the matching sheet detailing the documents to be submitted with the application for tax benefits under the Code.

(c) The applicant must submit a letter to the Tourism Office requesting that the date of the "Pre-Application Conference" be certified.

(d) The Tourism Office will issue a confirmation to this effect, or will indicate to the petitioner the reasons why the date of the meeting held cannot be considered as the date of the "Pre-Application Conference".

(e) In the event that the Tourism Office does not respond to the request for certification of the Eligible Business within fifteen (15) business days after receipt of the request, the date set forth in the request for certification shall be considered the date of the "Pre-Application Conference", provided that evidence is submitted that the request for certification of date was duly submitted and received by the Tourism Office, such as an acknowledgement of receipt of certified mail, e-mail with acknowledgement of receipt, or a copy of the request for certification itself stamped by the DDEC Secretary.

(f) The DDEC Secretary may determine that the date of the "Pre-Application Conference" is a different one than the one established by the Office of Tourism, if he understands that the best interests of the Government of Puerto Rico so require.

(g) Having received an endorsement or provisional approval from any office, division or department of any agency of the Government of Puerto Rico other than the Office of Tourism will not be considered as the date of the "Pre-Application Conference".

(h) Expiration. - After the Pre-Application Conference, the Eligible Business will have eighteen (18) months to file an application under Section 2053.01 of the Code. If the Eligible Business fails to comply with this requirement, it shall request an extension of the time period and shall provide a memorandum to the DDEC Secretary explaining the reasons why the application could not be filed after the Pre-Application Conference. The DDEC Secretary may grant the extension if he determines that it is in the best interest of Puerto Rico.
Article 1020.05(a)(28)-1. - Medical Tourism.

(a) Shall have the same meaning as set forth in paragraph (28) of subsection (a) of Section 1020.05 of the Code, providing that it shall be a certified and accredited medical facility in Puerto Rico, under the Medical Tourism program of Act No. 196-2010, as amended, known as the "Puerto Rico Medical Tourism Act," any successor or analogous law and the regulations issued thereunder.

Article 1020.05(a)(29)-1. - Nautical Tourism.

(a) Shall have the same meaning as set forth in paragraph (29) of subsection (a) of Section 1020.05 of the Code, providing that it shall comply with the necessary certifications required by the Tourist Board pursuant to Act No. 241-2010, as amended, known as the "Marine Tourism Act of 2010", any successor or analogous law and the regulations issued thereunder.
SUBCHAPTER F. - DEFINITIONS APPLICABLE TO MANUFACTURING

Article 1020.06(a)(13)-1. - Product manufactured in Puerto Rico.

(a) Means a manufactured product for which more than thirty percent (30%) of the product's value has been added in Puerto Rico. For these purposes, the difference between the price charged by the Exempt Business when selling the Manufactured Product and the cost of any imported material and any other cost incurred outside of Puerto Rico shall be determined. The value added includes, among others:

1. Direct and indirect costs incurred in Puerto Rico such as labor and the cost of factory related overhead; and
2. The cost of locally manufactured raw materials.

(b) The following products are not considered raw materials for purposes of the definition of Manufactured Product in Puerto Rico:
1. All building materials and prefabricated buildings;
2. All electrical material and water pipes embedded in the buildings;
3. Lubricants, greases, wax and paints
4. Lighting poles and fixtures installed in any area of the manufacturing plant, including parking areas;
5. Treatment plants and electrical substations.

(c) The following products are not considered to be manufactured in Puerto Rico:
1. Products manufactured by an Entity related to the Exempt Business, as discussed in Article 3020.01(a)-1 of these Regulations;
2. Purchase of energy or water;
3. Products that qualify as an agricultural product under Section 1051.07 of the Puerto Rico Internal Revenue Code.

(d) An Exempt Business that has a Decree granted under Chapter 6 of Subtitle B of the Code may subcontract the production in Puerto Rico of one (1) or several components or products, or one (1) or more manufacturing processes, or services related to such processes of products covered under its Decree or key functions necessary for its operation and the subcontractor will also qualify as an Eligible Business, provided that the DDEC Secretary determines that such subcontracting will result in the best interests of Puerto Rico.
SUBCHAPTER G. - DEFINITIONS APPLICABLE TO INFRASTRUCTURE AND GREEN OR HIGHLY EFFICIENT ENERGY

Article 1020.07(a)-1A. - Qualified Senior Citizen.

(a) Senior Citizen means a person, as defined in the Code, who does not own a home and whose gross income does not exceed eighty percent (80%) of the median annual income limit as set by the Federal Department of Housing (HUD).

Article 1020.07(a)-2A. - Large Units.

(a) Means units that have the following description:

1. The minimum dimensions of the house will be in accordance with the current building code.
2. Living and dining rooms will have minimum areas of up to one hundred and fifty (150) square feet.
3. The master bedroom will have a minimum area of eighty (80) square feet excluding the closet area.
4. The toilet shall have a minimum area of thirty-two (32) square feet with a width of not less than five feet ten inches (5'-10") in shower area.
5. The kitchen will have a minimum area of fifty (50) square feet.
6. The house will have a minimum height (clear span) of eight feet (8').
7. An open balcony at the front of the unit with a minimum area of thirty-three (33) square feet may be provided.
8. Interior and semi-interior patios with a minimum width of seven feet (7') between walls will be allowed.

Article 1020.07(a)-3A. - Historic Areas of Puerto Rico.

(a) Means all those zones declared by the Puerto Rico Planning Board or by the Institute of Puerto Rican Culture in accordance with the provisions of Law No. 374 of May 14, 1949, as amended, known as "Law of Historic, Ancient or Public Interest Zones" and by Law No. 89 of June 21, 1955, as amended, to establish the Institute of Puerto Rican Culture and define its purposes, powers and functions, respectively, thus decreed because it contains a large number of structures of historical, artistic, cultural or environmental value that constitute our built and urban heritage. In order to establish the rules related to the designation and conservation of historical sites and zones, the Planning Board established Chapter 54 of Volume XI of the Joint Regulations for Construction Work and Land Use Permits, JP-RP-31, as amended, known as the 2010 Joint Regulations. In connection with these provisions, we refer to the 2010 Joint Regulations or any subsequent regulations in force.
SUBCHAPTER H - DEFINITIONS APPLICABLE TO AGRO-INDUSTRIES

Article 1020.08(a)-1. - Agricultural.

(a) Means those activities directly related to agricultural operations and their respective sectors and commercial fishing.

Article 1020.08(a)-2. - Agribusiness.

(a) Refers to the set of operations, such as the processing and production of agricultural raw materials, related to the classification, washing, packaging, processing, storage and marketing of agricultural products.

Article 1020.08(a)-3. - Gross Income.

(a) For the purpose of determining whether a Bona Fide Farmer derives fifty-one percent (51%) or more of his or her gross income from the operation of one or more agricultural businesses, the term "gross income" means gross receipts and total amount of accumulated income according to the accounting method used to determine taxable income. For purposes of this computation, gross receipts shall not be reduced by costs of sales or direct costs of production, returns, discounts, costs of raw materials or merchandise sold and any deductions.

(b) The term "gross income" also includes:
   (1) Income items excluded from gross income under Section 1031.01 of the Internal Revenue Code; and
   (2) The gross income covered by a tax exemption decree under the above Incentive Code or Laws.

(c) Example: An entrepreneur derives income exclusively from two businesses: an agro-industrial business as owner and a business selling auto parts. The calculation of the percentage of gross farm income from the farm business is based on the entrepreneur’s total gross income. The entrepreneur must calculate the percentage based on the sum of gross income earned, which will be computed with the amount to be reported on line 1, Part II of Attachment L (Agricultural Income) and the amount of income from line 1, Part II of Attachment K (Income from Sale of Goods). For tax year 2020, the entrepreneur had gross receipts of $90,000 under the agro-industrial business
and $60,000 under the auto parts business. The entrepreneur is considered a Bona Fide Farmer since they derive more than 51% of their gross income from an agro-industrial business as an owner.

**Article 1020.08(a)-4. - Net Income.**

(a) Means income determined pursuant to Section 1031.05 of the Internal Revenue Code.

**Article 1020.08(a)-5. - Raw Material.**

(a) Includes all those products obtained through the practice of agriculture and livestock industries in all its branches. For the purposes of this Chapter of Agro-industries, this term does not include seeds or livestock used for milk production. Raw material is also known for any product in its natural state derived from the sowing or harvesting of fruits, vegetables and farinaceous or from the breeding of animals or the milking of cows or small ruminants. It also means any by-product, waste product, or partially processed or finished product derived from the activities described in the preceding sentence or from other activities determined by the Secretary of Agriculture.

**Article 1020.08(a)-6. - Agricultural and Agro-industrial Business.**

(a) Means the operation or exploitation of one or more of the businesses described in the Code and these Regulations or those so determined by the Secretary of Agriculture, under his discretionary powers and the public policy priorities delegated to him. In addition to this meaning, the term "Agricultural and Agro-industrial Business" is used in the Code and these Regulations to refer to a Bona Fide Farmer. Therefore, the meaning of "Agricultural and Agro-industrial Business" will depend on the context in which the term is used.

**Article 1020.08(a)-7. - New Agricultural and Agro-industrial Business.**

(a) Means any Agricultural and Agro-industrial Business as defined in these Regulations, that begins operations on or after the initial capitalization of the business and that will use real or personal property that has not been used in a business or agricultural activity during the period of eighteen (18) months, prior to the date of commencement or start of operations.

(b) Likewise, any business that, although it was an existing Agricultural and Agro-industrial Business during the referred period of eighteen (18) months, is acquired with the purpose of being subject to a renewal, including machinery and equipment, with the cash of a contribution exceeding two hundred percent (200%) of the purchase price of the business, shall also be considered as a New Agricultural and Agro-industrial Business.
(c) The above provision shall not apply if the seller of the acquired Agro-industrial and Farming Business and the acquiring individual, corporation or partnership are Related Persons or members of a controlled group of corporations or partnerships, as those terms are defined in Sections 1010.05(a), 1010.05(b) and 1010.04(a) of the Internal Revenue Code.

A new business will be considered as starting operations:

1. On the date it substantially acquires all the assets to conduct its business; or
2. The first month you make payroll payments, whichever comes first.

**Article 1020.08(a)-8. - Operator, Owner or Lessee.**

(a) Means the activities, concepts or figures or relations of operator, lessor, sub-landlord, owner, joint owner, usufructuary, lessee, sub-landlord or census taker or census consignee. The term "operator", owner or tenant does not include any activity, concept, figure or relationship of mere "employee". “Employees" as such of a Bona Fide Farmer are not "operator, owner, or tenant".

**Article 1020.08(a)-9. - Related Person or Member of a Controlled Group of Corporations or Partnerships.**

(a) These terms have the meanings set forth in Sections 1010.05(a), 1010.05(b) and 1010.04(a) of the Internal Revenue Code.

**Article 1020.08(a)-10. - Fishing.**

(a) Means taking or trying to take fish and other animals out of the water, from the bottom of the sea or a river.

**Article 1020.08(a)-11. - Agricultural Product.**

(a) Means everything that is obtained from the exercise of agricultural or agro-industrial activity for the use and consumption of man and domestic animals, including their products, either fresh or in any form of processing or conservation, as well as products derived from livestock in all its branches, including beekeeping and poultry.

**SUBCHAPTER I - DEFINITIONS APPLICABLE TO CREATIVE INDUSTRIES**

**Article 1020.09(a)-1. - Notice of Intent.**
(a) Means public notice of intent to designate a Creative Industries Development District, which shall comply with the requirements of Section 2094.01(a)-6 of these Regulations.

**Article 1020.09(a)-2. - Certification of Restrictive Conditions.**

(a) Certification means the certification issued by the DDEC Secretary with respect to any: (i) restrictive condition including, but not limited to, easements in equity, (ii) governing regime, (iii) rule or regulation and (iv) any architectural, design and/or construction guidelines that the DDEC Secretary deems necessary in a Creative Industries Development District for the implementation of the purposes of the Code.

**Article 1020.09(a)-3. - Certification and Enforcement.**

(a) Means the certification issued by the DDEC Secretary with respect to any Taxation authorized by Section 2094.01 of the Code.

**Article 1020.09(a)-4. - Conflict of Interest.**

(a) Means any situation in which a direct or indirect benefit to the person or their relatives, according to the Government of Puerto Rico Ethics Act of 2011 or successor law, is or is reasonably expected to be against the interests of the DDEC or the public interest in relation to one or more projects to be evaluated.
Article 1020.09(a)-5. - Lead Developer.

(a) Means the developer with responsibility for the development or operation of all infrastructure projects related to Studios in a Creative Industries Development District, understanding that a Lead Developer may delegate responsibility for different developments to other Developers. A Lead Developer must have acquired Registration Rights to the plots to be designated as a Creative Industries Development District, or have authorization from those having such Registration Rights to appear in order to apply for designation as a Creative Industries Development District.

Article 1020.09(a)-6. - Related Development.

(a) Means the development of infrastructure to support the operation or development of Studios, or operation and development of Creative Industries Development Districts in general, in accordance with the purposes and provisions of the Code.

Article 1020.09(a)-7. - Determination of Designation.

(a) Means the adjudication, which may be initial or final, by the DDEC Secretary of the cancellation, designation or refusal to designate an area as a Creative Industries Development District.

Article 1020.09(a)-8. - Director.

(a) Means the person who organizes a large number of aspects of a filming process to provide the final aspect of a Film Project. The director has to control the creative part of the film, dictating the action in front of the camera that results in the transformation of the script into a movie.

Article 1020.09(a)-9. - Director of Photography.

(a) Means the member of the recording team in charge of lighting the stage. The responsibilities of the crew include, but are not limited to, color composition and framing of images and camera setup and movement. Also known as "cinematographer".

Article 1020.09(a)-10. - Production Designer.

(a) Means the team member who imagines the overall look, feel and mood of a film according to the story told. The creative concept will be executed by the art director.

Article 1020.09(a)-11. - Editor.

(a) Means the person responsible for building the various audiovisual components of an audiovisual project into a coherent piece.
Article 1020.09(a)-12. - Domestic Working Group.

(a) Means the group composed by the Domestic Producer in charge of the Film Project, the Director, the Director of Photography or cinematographer, the Editor, the Production Designer and the Postproduction Supervisor or the Line Producer, being all Domestic Persons.

Article 1020.09(a)-13. - Imposition or Enforcement.

(a) Means regular, general or special charges, fees or spills.

Article 1020.09(a)-14. - Non-Resident Qualified.

(a) Means the producer, director, writer, on-camera talent (except for an actor who is an extra, also known as an extra), including: stuntmen, known as "Above the Line"; any person of a technical or creative nature behind the scenes, known as "Below the Line"; and any other similar person who according to the general accepted practice in the entertainment industry is considered "Above the Line" or "Below the Line", as determined by the DDEC Secretary, who is not considered a Resident Individual of Puerto Rico.

Article 1020.09(a)-15. - Parties with an interest in the Creative Industries Development District.

(a) Means any Owner, Lead Developer and Studio Operator participating in an Infrastructure Project in order to develop a Studio in a Creative Industries Development District.

Article 1020.09(a)-16. - Film Budget.

(a) Means the expenses that are taken into consideration when producing a Film Project. Calculation of the money that will be spent for the daily shoot or any activity related to the Film Project to ensure that production stays within the parameters of the allocated money.

Article 1020.09(a)-17. - Producer.

(a) Means the private entrepreneur who owns the intellectual property rights of the work and is responsible for making and marketing the film project.

Article 1020.09(a)-18. - Line Producer.

(a) Means the person in charge of the daily operations. Their responsibilities include, but are not limited to, the administration of human resources and handling situations that arise in the daily operation related to expenses or other administrative matters.
Article 1020.09(a)-19. - Application for Designation.

(a) Means the application submitted to the DDEC by a Lead Developer in charge of an Infrastructure Project for the development of a Studio, proposing the designation of a Creative Industries Development District.

Article 1020.09(a)-20. - Post Production Supervisor.

(a) Means the member of the film team responsible for supervising all post-production activity.

Article 1020.09(a)-21. - Headline.

(a) Means the owner or holder in full possession of a property right over all or part of the land, properties, plots or specific real estate components to be part of a Creative Industries Development District.

Article 1020.09(a)-22. - Creative Industries.

(a) Means those companies registered in the Creative Industries Registry, as established in Article 8 of Law 173 of 2014, "Law to Promote the Creative Industries of Puerto Rico", that have the potential to create jobs and economic development, mainly through the export of creative goods and services in the following sectors: Design (graphic, industrial, fashion and interior); Arts (music, shows and/or live performances, visual arts, performing arts and publications); Media (application development, video games, online media, digital content and multimedia); and Creative Services (architecture and creative education).
SUBCHAPTER J. - DEFINITIONS APPLICABLE TO OTHER INDUSTRIES

Section 1020.10(a)-1. - Ports in the Jurisdiction of Puerto Rico.

(a) Means the Port of Mayagüez, the Port of Ponce, the Port of San Juan and any other public marine facility within the jurisdiction of the Government of Puerto Rico, as designated by the DDEC, through the Tourism Office.

(b) **Port of Mayagüez.** - Means the port and public marine facilities for tourists and passengers, owned and operated by the Mayagüez Port Commission, located in the municipality of Mayagüez.

(1) **Port of Mayagüez Commission.** - Means the public corporation organized and existing under Law No. 10-1959, as amended, known as the "Law of the Port Commission of Mayagüez", which owns and operates, or designates the operation to an authorized administrator for the Port of Mayagüez, located in the municipality of Mayagüez.

(c) **Port of Ponce.** - Means the port and public marine facilities for tourists and Passengers, owned and operated by the Port Authority of Ponce, located in the municipality of Ponce.

(1) **Ponce Port Authority.** - Means the public corporation organized and existing under Law No. 240-2011, as amended, known as the "Law of the Port Authority of Ponce", which owns and operates, or designates the operation to an authorized administrator for the Port of Ponce, located in the municipality of Ponce.

(d) **Port of San Juan.** - Means the port and public marine facilities for tourists and Passengers, owned and operated by the Port Authority, as that term is defined in paragraph (8) of subsection (a) of Section 1020.01 of the Code, located in the municipality of San Juan.

Article 1020.10(a)-2. - Cruise Ships.

(a) Means the cruise ship or vessel dedicated to the transport of Passengers, with cabins, which carries twelve (12) or more Passengers, or which performs cruises or tourist services.

(b) **Exclusion.** - The term does not include a cruise ship or vessel dedicated to the transportation of cargo.

(c) For purposes of the Code and these Regulations, when the term "Cruise" or its expression in plural is used, it shall mean that the Code and these Regulations refer to "Cruise Ships or Passenger Ships".
Article 1020.10(a)-3. - Cruise Ship Company.

(a) Means a Person who owns and operates one (1) or more Cruise ships, or a line of Cruise ships and uses any Port in the Jurisdiction of Puerto Rico as its destination, including, an Affiliated Cruise line, subsidiary or its brands, which may be considered as a single Cruise Ship Company.

(b) For purposes of the Code and these Regulations, when the term "Cruise Ship Owner" or its expression in the plural is used, is shall mean that the Code and these Regulations refer to "Cruise Ship Company".

Article 1020.10(a)-4. - Cruise Ship Act.

(a) Means Law No. 113-2011, as amended, known as the "Law for the Promotion and Development of the Cruise Ship Industry of Puerto Rico", or any other successor or analogous law.

Article 1020.10(a)-5. - Passengers.

(a) Means any Person who travels on board, embarks or disembarks from a Cruise ship in any Port in the Jurisdiction of Puerto Rico.

(b) Exclusion. - The term does not include the personnel or crew of a Cruise that may occasionally use the port facilities of any Port in the Jurisdiction of Puerto Rico, providing that, the employee or personnel of a Cruise Owner that travels on board a Cruise, and is not directly employed in the operation of the Cruise, shall be considered as a Passenger for purposes of the Code and these Regulations.

Article 1020.10(a)-6. - Passenger Fare.

(a) Means the fee, tax or charge assessed by the Port Authority, the Port of Mayagüez Commission, or the Ponce Port Authority, as the case may be, through its Port Tariff to each Passenger embarking or disembarking at the port facilities of any Port in the Jurisdiction of Puerto Rico.

Article 1020.10(a)-7. - Port Tariff.

(a) Means the fee, tax or charge assessed for the use of public marine facilities and port services in any Port in the Jurisdiction of Puerto Rico.
SUBTITLE B. - ECONOMIC DEVELOPMENT INCENTIVES

CHAPTER 1. - INCENTIVES OF GENERAL APPLICATION

SUBCHAPTER A. - GENERAL RULE

Article 2011.02(a)-1. - Contribution on Income.

(a) For purposes of the effectiveness of the four percent (4%) fixed preferential income tax rate, the effective date shall be as set forth in Section 6020.02 of the Code, which may be the date of application for the Decree, or such later date as may be applicable.

Article 2011.03(a)-1. Property Contributions.

(a) A Business Exempt under the Code and the provisions of these Regulations, except for a Business Exempt under Chapter 2 of Subtitle B of the Code, shall have a seventy-five percent (75%) exemption from personal property and real estate taxes as imposed by the Municipal Taxation Law.

Article 2011.03(b)-1. - Property Contributions.

(a) Where an Exempt Business has commenced operations prior to filing an application for tax exemption under the Code, the commencement of operations, for property tax purposes, January 1 shall follow the date on which the application for tax exemption under the Code was filed.

(b) The period of partial exemption will begin on the first day of the Fiscal Year of the Government of Puerto Rico (July 1), subsequent to the last Fiscal Year in which the Exempt Business was totally exempt. The partial exemption for such Fiscal Year shall correspond to the tax on the property owned by the Exempt Business on the first (1st) of January prior to the beginning of said Fiscal Year.

(c) When an Exempt Business commences operations upon or after filing an application for tax exemption under the Code, the commencement of operations for property tax purposes shall be January 1 of the year in which the Exempt Business commences the activities covered by the Decree, but not before January 1 of the year in which the application for tax exemption under the Code is duly filed.
**Article 2011.04(c)-1. - Municipal Contributions.**

(a) When an Exempt Business commences operations upon or after filing an application for tax exemption under the Code, it shall be understood that the commencement of operations for purposes of the exemptions provided by the Code shall be the first (1st) day of the six-month period following the date on which the Exempt Business commences the activities covered by the decree.

(b) An Exempt Business under the Code and the provisions of these Regulations, except for an Exempt Business under Chapter 2 of Subtitle B of the Code, shall have a fifty percent (50%) exemption from municipal taxes, meaning municipal patents, excise taxes and other municipal taxes imposed by any municipal ordinance, and seventy-five percent (75%) in the case of construction taxes imposed by any municipal ordinance.

(c) When an Exempt Business has begun operations prior to filing the application for tax exemption under the Code, it shall be understood that the commencement of operations, for municipal patent purposes, shall be the first (1st) day of the semester following the date on which the application for tax exemption under the Code was filed.

**Article 2011.05-1. Flexible Tax Exemption.**

(a) The selection of the Flexible Tax Exemption for a Tax Year by an Exempt Business will not exempt the Exempt Business from complying with the terms and conditions of its Decree.

**SUBCHAPTER B. - SMALL AND MEDIUM ENTERPRISES (SMES)**

**Article 2012.01-1. - Tax Exemption.**

(a) An Exempt Business that is also a New SME under the Code, in addition to being subject to the provisions applicable to such Exempt Business under the Code, shall enjoy the benefits set forth in this Subchapter. A Successor Business to an SME shall not qualify for the benefits contained in this Subchapter of the Code. The Exempt Income of a New SME shall be subject to a fixed income tax rate of two percent (2%) for a period of five (5) years, even if the New SME ceases to meet the requirements of the SME definition during said five (5) year period, and four percent (4%) for the remaining period of the Decree. In addition, the New SME will enjoy a one hundred percent (100%) exemption from property taxes on movable and immovable property, as well as from municipal taxes for the first five (5) years of the Decree. The remaining tax exemption period will enjoy seventy-five percent (75%) exemption in taxes on movable and immovable property, and fifty percent (50%) of exemption in municipal taxes.
SUBCHAPTER C. - VIEQUES AND CULEBRA

Article 2013.01(a)-1. - Criteria and Limitations to be Met by Exempt Businesses Operating on the Islands of Vieques and Culebra.

(a) The benefits will apply exclusively to operations on the Island Municipalities of Vieques and Culebra.

(b) Evaluation criteria:

   (1) The Exempt Business is operating in Vieques and/or Culebra;
   (2) The Exempt Business is registered to do business in the Municipality of Vieques and/or Culebra;
   (3) Has an office or facility located in the Municipality of Vieques and/or Culebra;
   (4) Has a valid Decree and the Exempt Business is in compliance with the provisions and requirements of the Decree;
   (5) Economic activities that, regardless of the economic sector to which they belong, are carried out with the purpose of advancing public policy with respect to the development of markets, products, processes, services and any other activity that the DDEC Secretary deems appropriate to promote in the best interests of Puerto Rico.

SUBCHAPTER D. - OTHER INCENTIVES

Article 2014.01(a)-1. - Strategic Projects.
(a) The DDEC Secretary may allocate money from the Economic Incentive Fund as incentives to promote business development and job creation in activities that are considered Strategic Projects. The DDEC Secretary shall ensure that the incentives are granted in the best economic and social interest of Puerto Rico.

**Article 2014.01(a)-2. - Activities and Projects Considered Strategic Projects.**

(a) The following activities and projects, among others that may be established by the DDEC Secretary, are considered Strategic Projects for the purposes of the Code and these Regulations:

1. The establishment of an industry of maintenance, repair and general conditioning of aircrafts in Puerto Rico;
2. Repair and general conditioning of marine vessels, as well as their parts and components;
3. Cleaning, recovery, conversion and restoration of landfills that have been closed in Puerto Rico, including methane recovery activities and cleaning of aquifers;
4. The construction of reservoirs and/or dams, including all infrastructure necessary for their operation, for the purpose of increasing storage and reserves, and safeguarding the production value of water for the Puerto Rico Aqueduct and Sewer Authority; the production of hydroelectric power; and the construction of wastewater treatment plants;
5. The construction of energy production plants using alternative fuels to oil and renewable sources;
6. The construction of mass transportation systems, including, but not limited to, train system mass transportation systems;
7. The construction of affordable housing components for rent, related services or infrastructure in areas adjacent to mass transit systems or the San Juan Islet Waterfront, upon recommendation of the Department of Housing, in accordance with a development plan for the area adopted by the Planning Board;
8. Those economic activities that, regardless of the economic sector to which they belong, have the purpose of advancing public policy with respect to the development of markets, products, processes, services and any other activity that the DDEC Secretary deems appropriate to promote in the best interest of Puerto Rico, may also be considered as Strategic Projects.

**Article 2014.01(a)-03. - Best interests of Puerto Rico.**

(a) For these purposes, the following criteria will be analyzed to determine if the granting of the incentive is based on the best interests of Puerto Rico:
(1) Special nature of the Exempt Business;
(2) Technology used;
(3) Potential for job creation;
(4) Business location;
(5) Possible hiring of local suppliers;
(6) Convenience of having local supplies of the product; and
(7) Any other criteria or factors that in the judgment of the DDEC Secretary, merit such a determination.

Article 2014.02(a)-1. - Pioneering New Activity.

(a) The Code grants the DDEC Secretary the power to determine economic activity that has not been produced, carried out or performed in Puerto Rico prior to the twelve (12) months ending on the date the exemption is requested for the Pioneer Novelty Activity and that it possesses special and impacting characteristics, attributes or qualities for the benefit of the socioeconomic development and best interests of Puerto Rico.

Article 2014.02(b)-1. - Determination of Pioneering Novelty Activity.

(a) The following will be considered priority factors in determining what constitutes a Pioneering Activity:

(1) The profile of the jobs, including the need for specialized personnel with particular skills and abilities, as well as the number of jobs to be created and the related payroll;

(2) Economic impact that such activity will represent for Puerto Rico, based on priority factors, in particular:

(A) Degree or level of utilization and integration of research and/or development activities to be carried out in Puerto Rico;

(B) Tax impact that the Pioneer Innovative Activity may generate in Puerto Rico based on the projected sales of the product or income from the provision of services, with special emphasis on the contribution retained by way of royalty payments to non-residents of Puerto Rico;

(C) The nature of the activity with particular interest in those that increase competitiveness in global markets, that require or result in the development of innovation capabilities and that result in additional capital investment in Puerto Rico;

(D) The type and extent of capital investment to be made in plant, machinery and equipment;
The uniqueness of the Pioneer Innovative Activity in Puerto Rico, its impact on the international market, as well as the factors that define and establish its value in that market;

Technological improvements that will be part of the operations, with particular interest in the implementation of emerging or innovative technologies with the potential to generate capacities that will position the island as a global competitor in the manufacturing area;

Socioeconomic impact that the Pioneering Innovative Activity will have on the island;

Any other factor that the DDEC Secretary considers important.

Article 2014.02(c)-1. - Information and Requirements for the Evaluation of a Pioneering Novelty Activity.

(a) The Exempt Business or a petitioner requesting the designation of Pioneer Novelty Activity shall submit the following information and comply with the requirements set forth in Subtitle A of these Regulations:

1. Executive summary that includes the description of the activities to be carried out, the benefits that would be provided by the implementation of such activities in the Puerto Rican economy and society and any other factor that the Exempt Business considers relevant for the evaluation of its application;

2. Evidence that supports the viability of the Pioneer Novelty Activity;

3. Amount and type of investment in property, plant and equipment;

4. Information on patents or registration of any other intangible property arising from the activities, if applicable;

5. Any other information requested by the DDEC Secretary.

CHAPTER 2. - INDIVIDUALS

SUBCHAPTER A. - ELIGIBILITY

Article 2021.02-1. - Difficult Recruitment Professional.

(a) In addition to the requirements set forth in Code Section 6020.01, the Difficult Recruitment Practitioner must provide the following information in order for the application for an Executive Decree grant to be evaluated:

1. Explanatory letter of the Exempt Business where the Difficult Recruitment Professional will work, including the following information:

   I. Narrative that explains the reason and necessity of the Exempt Business in hiring the Difficult Recruitment Professional;
Management made for the recruitment of the position that will cover the Professional of Difficult Recruitment;

Exempt Business Decree Number;

In the case of Puerto Rico residents at risk of leaving Puerto Rico, the employer must explain the difficulty of replacing this professional due to his level of experience and specialized knowledge, whose talent is indispensable for the operations of the Exempt Business.

(2) Explanatory letter from the applicant that includes the following information:
(A) Detailed description of studies and academic preparation;
(B) Work experience.

(3) A letter of recommendation from a professional of the pertinent industry, or from a university professor, in case the applicant has no work experience.

(b) Provided that, in the case of a New Resident, the following requirements are also met:

(1) At least one (1) year of work experience outside of Puerto Rico in any of the activities described in Section 2031.01(a) of the Code.

(2) In cases in which the Professional of Difficult Recruitment has no previous work experience, the Secretary will consider the following factors, among others:
(A) The university where the applicant studied
(B) Academic Record
(C) Research or thesis carried out by the applicant
(D) Internships
(E) Any other factors that the DDEC Secretary deems relevant based on the operations of the Exempt Business where the Professional of Difficult Recruitment will work

(3) However, in the case of persons with particular profiles that may attract investment opportunities to Puerto Rico by virtue of their professional experiences, personal networks or worldwide recognition, the requirement of paragraphs (1) and (2) of this section shall not apply to such persons. The following would be persons with such profiles:
(A) Any person who is or has been President ("Chief Executive Officer") of a Fortune 500 company
(B) Any person who is or has been a Director of the Board of Directors ("Board Director") of a Fortune 500 company
(C) Any person who is or has been President of a large scale university in the United States which will be any university that has a "Top 50 Ranking" or that has more than 50,000 students
(D) Nobel Prize Winners

(E) Oscars, Emmys, Grammys, Tonys winners

(F) Any other category of individuals that the DDEC Secretary understands fulfills the purpose of these Regulations to bring to Puerto Rico individuals with extraordinary knowledge, worldwide recognition, connections to companies that could bring investment to Puerto Rico, or personal interconnections ("Networks") that could be of benefit to Puerto Rico.

(c) There are professionals who are difficult to recruit, residents of Puerto Rico who, by virtue of their professional experience, have or could have more attractive job offers or alternatives in other jurisdictions and who could contemplate leaving the Island. In the case of Individuals Resident of Puerto Rico, a Professional of Difficult Recruitment must meet the following requirements:

1. Must have at least one (1) year of work experience in one of the activities described in Section 2031.01(a) of the Code.

2. Must work for an Exempt Business, but the services provided to that entity may be different from the type of service in which they have work experience.

3. In these cases it will not be required to comply with provisions for the purposes of complexity of recruitment, since the intention is to retain the Difficult to Recruit Professional on the Island rather than attract a new professional.

(d) The DDEC Secretary may consider a New Resident or an Individual Resident of Puerto Rico who does not comply with the provisions of this Article as a Professional of Difficult Recruitment as long as it is determined that such concession advances public policy objectives and is in the best interest of Puerto Rico.

SUBCHAPTER B. - RESERVED

SUBCHAPTER C. - REQUIREMENTS FOR THE CONCESSION OF EXEMPTION

Article 2023.02(a) 1- Requirements for Applications for Qualified Physician Decrees.

(a) Any Qualified Physician who is interested in availing himself or herself of the tax benefits of Code Section 2022.04, in addition to meeting the requirements of Code Section 2023.01, shall comply with the following:
(1) Submit an application to the Department of Health for a Qualified Physician's Certificate in accordance with the process approved by the Secretary of Health.

(2) Once a Qualified Physician Certificate has been obtained, they may apply to the Incentive Bureau following the process and form set forth in Section 6020.01 of the Code. The application shall contain all the documentation and information required in Section 2023.02 and 6020.01 of the Code and Chapter 2 of Subtitle F of these Regulations.

**SUBCHAPTER D. - SPECIAL PROVISIONS**

**Article 2024.01-2 - Amendments to the Decree**

(a) The Qualified Physician may request amendments to the Executive Decree by electronically filing an affidavit, along with the appropriate filing fee, as set forth in Chapter 2 of Subtitle F of these Regulations, with the Incentive Bureau, including any relevant documentation in support of the request and/or as required. For matters requiring the interpretation of the Code in light of the provisions of the Puerto Rico Internal Revenue Code, the Licensee must request an administrative determination before the Department of the Treasury, through the process established by the Secretary of the Treasury.

**Article 2024.01-3 - Filing of Application for Annual Certification of Compliance with the Office of the Exemption.**

(a) Every Licensee shall file a Certificate of Compliance application with the Incentive Bureau every two years. The first installment shall be filed no later than July 15 of the Tax Year, and the second installment shall be filed fifteen (15) days after the close of the applicant's Tax Year.

(1) The Certificate of Compliance shall include the following information regarding the Licensee:

(A) Name and that of related businesses, including the geographic location of each of their practices;

(B) Merchant registration certificate number, if applicable;

(C) Employer's social security and employer's address, if applicable;

(D) Licensee's employer's social security, if applicable;

(E) Related account as required by the Puerto Rico Internal Revenue Code; and

(F) Information required by Law 216-2014, as applicable

(2) The request for Certification of Compliance will be submitted through the Portal using the online form that the Incentive Bureau adopts for these purposes. Any request for
Certification of Compliance shall be accompanied by the applicable filing fee as set forth in Chapter 2 of Subtitle F of these Regulations.

**Article 2026.01(d)-1. - Reserved.**

**CHAPTER 3. - EXPORT OF GOODS AND SERVICES**

**SUBCHAPTER A. - ELIGIBILITY**

**Article 2031.01(a)-1. - Eligible Activities for Export of Services.**

(a) In regards to of activities that are considered Export Services or Promoter Services carried out or that may be carried out by a Person with a bona fide office or establishment located in Puerto Rico, Eligible Activities will be activities that fit into one of the following categories of service activities, within or outside of Puerto Rico, as defined below. For purposes of this Article 2031.01(a)-1 and the Code, the phrase "outside of Puerto Rico" means that an Eligible Activity will not be disqualified when by the nature of the Eligible Activity, and because it is not possible, the Licensee must relocate outside of Puerto Rico to conduct part of such activity. Under this scenario, the Eligible Activity conducted outside of Puerto Rico will be incidental to the main Eligible Activity, which must be conducted from Puerto Rico.

1. **Research and development.** - Includes, but is not limited to, activities dedicated to the discovery, research, experimentation, testing and verification of new or improved processes or products, as defined in these Regulations.

2. **Advertising and public relations services.** - The term "Advertising Services" includes, but is not limited to, commercially reasonable forms of communication used to persuade an audience (viewers, readers, or listeners) to purchase, lease, or otherwise expend funds or take other actions to obtain access to products, ideas or services. The term "Public Relations Services" includes, but is not limited to, services that are performed to improve and/or maintain the image of a business, organization or public person.

3. **Economic, environmental, technological, scientific, managerial, marketing, human resources, IT and auditing consultancy advice.** - Includes, but is not limited to, professional services provided by Qualified Persons and their staff, including, but not limited to, providing microeconomic and macroeconomic studies to assist clients or consumers with business planning, assessment of potential environmental contamination of the
premises and/or development of rehabilitation programs for contaminated sites, as well as advice on pollution removal and operation of environmentally safe facilities, assessment of selection, maintenance and disposition of property, plant and equipment to maximize productivity, advice on facilities and resource management, advice on best practices of personnel, including recruitment and retention of workers, advice on selection of hardware and software systems, management, maintenance and financial accounting services related to the issuance of audited financial statements or financial reviews and compilations.

(4) **Advice on matters related to any industry or business.** - Includes, but is not limited to, all advisory services not otherwise excluded that are designed to help clients increase their business volume, improve the efficiency of their operations, enhance their business planning processes and maximize their profits.

(5) **Creative Industries.** - Include, but are not limited to, those enterprises that have the potential for job creation and economic development, primarily through the export of creative goods and services in the following sectors: Design (graphic, industrial, fashion and interior); Arts (music, live performances and/or presentations, visual arts, performing arts and publishing); Media (application development, video games, online media, digital content and multimedia) and Creative Services (architecture and creative education), as defined by Section 1020.09 of the Code, including ticket sales outside of Puerto Rico and ticket sales that are purchased by tourists in Puerto Rico, as well as revenues related to the transmission or sale of rights to a recording for audiences outside of Puerto Rico, of events, shows and musical productions and eSports and Fantasy Leagues events to be held in Puerto Rico.

(6) **Production of plans, engineering and architectural services and project management.** - Include, but are not limited to, the provision of design, architectural and construction drawings and plans, the creation of construction programs and the day-to-day management of construction projects and other similar services.

(7) **Professional services.** - Include, but are not limited to, professional services offered by service providers with specialized training, such as legal, tax and accounting services.

(8) **Centralized management services.** - Services provided to Entities to assist in the performance of management functions, including, but not limited to, strategic management, planning and budgeting services, that are performed by
a parent company ("headquarters") or similar regional offices of an Entity that is engaged in the provision of such services and other similar services.

(9) **Electronic information processing center.** - Includes, but is not limited to, any organized set of resources and methods used to collect, store, process and distribute electronic data and other digital content, primarily by automated means.

(10) **Development of computer programs.** - Includes, but is not limited to, the development of computer software with a general application license and custom software.

(11) **Distribution of computer programs.** - Distribution of computer programs in physical form, on the cyber network, by cloud computing, or as part of a blockchain, and the proceeds from licensing, program subscriptions or service charges.

(12) **Voice, video, audio and data telecommunication to people located outside of Puerto Rico** - Includes, but is not limited to, the provision of facilities and personnel to allow the transmission of voice, video, audio and data communications originated and completed outside of Puerto Rico.

(13) **Call centers.** - Include, but are not limited to, the operation of organized facilities for the centralization of the receipt or making of calls from or to current or potential consumers, customers or donors, made by individuals for the purpose of promoting the interests of businesses, enterprises, government entities or charities.

(14) **Shared Services Center.** - Includes, but is not limited to, operations that provide accounting, legal, financial, tax, auditing, marketing, engineering, quality control, human resources, communications, electronic data processing and other centralized administrative services to businesses and other organizations that choose to employ such centers rather than perform such services internally.

(15) **Education and training.** - Include, but are not limited to, education and training, such as courses, seminars, conferences, among others, that use one or more of the technologies listed in this paragraph to instruct students, participants and others who are in physical spaces other than that of the instructor, and to regularly and substantively support interaction between students or participants and the instructor, either synchronously or asynchronously. Technologies may include, but are not limited to, the following:

(A) **Internet;**
(B) Unidirectional and bidirectional transmissions through open transmission, closed circuit, cable, microwave, broadband lines, fiber optics, satellite or wireless communication devices;

(C) audio conference; and

(D) videotapes, DVDs and CD-ROMs, provided that they are used in a course in conjunction with any of the technologies listed in (A) through (C).

Hospital and laboratory services, including Medical Tourism services and telemedicine facilities. - Includes, but is not limited to, laboratories, telemetry services, x-ray services, magnetic resonance imaging services, blood tests and other similar services that assist in the delivery of healthcare.

Investment banking and other financial services. - Include, but are not limited to, the following services: (a) asset management; (b) management of alternative investments; (c) management of activities related to private equity investments; (d) management of hedge funds or high risk funds; (e) management of capital funds ("pools of capital"); (f) management of trusts that serve to convert different groups of assets into securities; (g) escrow account management services, given that such services are provided to foreign persons; (h) municipal finance; and (i) other activities that involve assisting clients with the management of their investment funds.

Investment banking services include, but are not limited to, services provided by a financial institution, which consist of raising capital for clients through underwriting and/or acting as an agent for the client in the issuance of securities. Investment banking services may also include the provision of financial advice in connection with mergers and acquisitions and services to consumers or clients such as market making and trading of capital securities, fixed income instruments, hybrid securities, derivatives, interests in mutual funds, exchange traded funds, hedge funds, commodities, commodity derivatives, commodity pools, foreign exchange and other similar investments and other public or privately held investments, whether in a discretionary or non-discretionary account. It may also include services performed for consumers and clients by brokers. Such services shall not include individual trading for one's own account, except as otherwise provided in these Rules.

(B) Asset management and investment management alternatives include, but are not limited to, services related to the provision of investment advice, execution services, and related services to clients with respect to any type of investment alternative, the purchase or sale of securities,
fixed income instruments, hybrid securities, derivatives, mutual fund shares, exchange traded funds, hedge funds, hedge funds of funds and other public or privately held investments in either discretionary or non-discretionary accounts. It shall also include services related to the provision of investment advice, execution services and related services to clients in respect of the purchase and sale of commodities, commodity derivatives, commodity pools, foreign exchange and other similar investments.

(C) Management of activities related to private equity investment includes, among others, services provided to a non-publicly available collective investment scheme used to make investments in equity or debt securities, commonly referred to as private equity funds.

(D) The management of hedge funds or hedge funds includes, but is not limited to, services provided to insurance companies and other organizations that provide insurance or risk sharing groups with respect to the provision of investment advice, execution services and related services to fund groups established by such companies to cover future claims to be made by policyholders and other insured parties.

(E) The management of equity funds ("pools of capital") includes, but is not limited to, services other than those described above in connection with investment advice, the making of investments, execution services and services related to investments made by a group of funds where multiple investor funds are managed jointly, including, but not limited to, mutual funds, unit trusts, private equity funds, open and closed end investment companies and commodity pools. This section addresses the management of such pooled investment funds and the provision of advice and other services to fund managers, rather than the provision of advice to investors on participation as investors in such funds.

(F) Trust management that serves to convert different groups of assets into securities includes, but is not limited to, services in connection with the administration or maintenance of funds held in trust, whether such funds are held for the preservation of assets or for the purpose of investing such funds.

(G) Escrow account management includes, but is not limited to, services provided in connection with the administration or maintenance of funds held in escrow under escrow account arrangements, or held under other equivalent forms of arrangements under a different name.

(H) Other activities involving assisting clients with the management of their investment funds include, but are not limited to, all activities of a
commercial nature involving the provision of advice, guidance, execution services, fund management or services related to the investment activities of clients, as well as the provision of "back office" service functions for all such investment and trading activities.

(18) **Marketing centers.** - Include, but are not limited to, marketing centers that are primarily dedicated to providing, through rental fees, services or other types of charges, space and services such as: secretarial, translation and information processing services, communications, marketing services, telemarketing and other consulting services to businesses outside of Puerto Rico, including export and marketing companies, consulates and trade attachés, government agencies responsible for foreign trade, barter and product and service exhibition centers;

(19) Any other service that the DDEC Secretary, in consultation with the Secretary of the Treasury, determines should be treated as an eligible activity with the argument that such treatment is in the best economic and social interests of Puerto Rico, as well as taking into consideration the demand that may exist for those activities outside of Puerto Rico, level of employment, payroll, proposed investment in Puerto Rico, among others.

(A) For these purposes, the provision of services for or related to the development, production, post-production and/or transmission of programming for film, television, Internet and other similar media projects, for broadcast, distribution or exhibition outside of Puerto Rico will be an eligible activity. Said service will not be disqualified because the programming is transmitted, distributed or exhibited in Puerto Rico, as long as said emission, distribution or exhibition within Puerto Rico is considered incidental or minimal and the emission, distribution or general exhibition is not primarily intended for the public of Puerto Rico. For example, the production of a network television program in Puerto Rico for distribution through a national network will not be disqualified because the network is also available to viewers in Puerto Rico.

(B) For these purposes, the provision of cloud computing services to users or subscribers other than Households will be treated as eligible activity. The provision of cloud computing services to users or subscribers who are Households will not be treated as a qualifying activity.

(C) For this purpose, the provision of services to a government entity that enables that entity to provide services normally provided by a government to its citizens and residents shall constitute an eligible activity. For this subsection the entity also includes an office of a
federal, state or local government of the United States or another
country, but does not include an office of the government of Puerto Rico
or any of its municipalities or other subdivisions.

(D) For this purpose, the provision of medical, dental, ophthalmological and
other health services provided by a professional licensed in Puerto Rico
to provide such services shall be treated as Eligible Activities, provided
that the recipient of such services, say the patient, is not an Individual
Resident of Puerto Rico and has been present in Puerto Rico for
fourteen (14) days or less in the period of three hundred and five (365)
days prior to receiving such services. The provider of Eligible Activities
will retain in his/her records all of the following documentation to
demonstrate that the patient receiving the services is not an Individual
Resident of Puerto Rico:

(i) Patient's statement certifying that:

1. they have not been present in Puerto Rico for fourteen
   (14) days or less in the three hundred and sixty-five (365)
   day period prior to receiving such services;

2. they are not an Individual Resident of Puerto Rico;

3. their permanent address and country of residence is
   outside of Puerto Rico.

(ii) Certification from the Exempt Business that represents that it is
   not aware of any information indicating that the patient has been
   present in Puerto Rico for more than fourteen (14) days in the
   three hundred and sixty-five (365) day period prior to receiving
   such services or that the patient is an Individual Resident of
   Puerto Rico;

(iii) Copy of documentation evidencing country of residence outside
     of Puerto Rico of the patient, including, but not limited to, driver's
     license or utility bills that present name and residential address
     outside of Puerto Rico; and

(iii) Documentation in the patient file of the following:

1. A doctor's referral that includes the date of service and
   total number of days the patient needs to be in Puerto
   Rico to perform the medical procedure and/or a copy of
   the insurance approval;

2. if the medical procedure requires the patient to stay in
   Puerto Rico for more than fourteen (14) days the record
   must include a letter from the doctor and approval from
   the medical plan justifying the stay;
in the case of obstetric patients that the doctor requires their stay to be more than fourteen (14) days before giving birth, require a letter from the doctor justifying the stay and if the patient has a medical plan, approval from the medical plan;

in the event that the patient is a resident of the U.S. Virgin Islands or in the United States and does not have health insurance, his/her record must include a copy of the license and physician referral that includes the dates needed to perform the procedure; and

in the case of international patients, the file must include a copy of the B-2 visa granted to non-U.S. patients who wish to receive medical treatment not offered in their home country which is temporary and for the sole purpose of receiving medical treatment.

(iv) **Annual Report.** - The Exempt Business under this subsection (D) shall include in its Annual Report a certification under penalty of perjury that it has no knowledge of any information indicating that patients who received eligible medical services during the year reported in the Annual Report:

(1) were present in Puerto Rico for more than fourteen (14) days in the three hundred and sixty-five (365) day period prior to receiving such services; and

(2) were individual residents of Puerto Rico.

(E) For this purpose, income derived from the investment of funds obtained from the provision of an eligible activity, net of taxes, shall be considered income from an eligible activity, provided that such investments are:

(i) Reinvested in the Entity conducting the eligible activity, provided that sufficient accounting records are maintained to determine the portion of the investment income attributable to the funds obtained from the provision of Eligible Services;

(ii) Made in an Entity with its principal place of business in Puerto Rico, provided that the returns on such investment are represented separately from any other investment made by the investor in such Entity and that accounting records are maintained that are sufficient to determine the portion of any income earned that is attributable to the investment of funds earned from the provision of Eligible Services; or
Conducted in a financial institution in Puerto Rico.

For these purposes, a financial institution in Puerto Rico is a business that provides services described in subsection (a)(17) of this Article, provided that it is licensed by the Office of the Commissioner of Financial Institutions of Puerto Rico and has a physical office in Puerto Rico.

All funds must be held in a separate and segregated account and must not in conjunction with any other assets. Otherwise, income derived from such investment will not be considered income from an eligible activity from the date of such union.

Article 2031.01(b)-1. - Export Service.

To qualify for Code benefits as an eligible Export Service or Promoter Service activity, a service must meet the definition of an Export Service. An eligible activity is an Export Service when it does not have a Nexus to Puerto Rico and is provided to a customer described in this section. However, a Promoter Service is an Export Service when it is provided to a customer described in this section, regardless that the Promoter Service has a Link to Puerto Rico. Export services must be provided for the benefit of any of the following:

1. A Foreign Person;
2. A trust whose beneficiary(ies), settlor(s) and trustee(s) are not Residents of Puerto Rico or Entities formed under the Laws of Puerto Rico or that carry out a trade or business or an activity for the production of income in Puerto Rico;
3. An estate whose testator, heirs and legatees are not Residents of Puerto Rico or Entities formed under the Laws of Puerto Rico or that carry out a trade or business or an activity for the production of income in Puerto Rico, or, in the case of the testator has not been a Resident of Puerto Rico before death;
4. A Person doing business in Puerto Rico ("intermediary business"), as long as the services have no Nexus with Puerto Rico, without considering the intermediary business, and the services are intended for a client of the intermediary business that complies with any of the provisions listed in this subsection (a);

Example. - Corporation A, which has an Export Services Decree, is incorporated under the laws of Puerto Rico. Corporation A is contracted by Corporation B to provide eligible services to markets outside of Puerto Rico. Corporation B is a company organized under the laws of Puerto Rico. Corporation B contacts clients outside of Puerto Rico so that Corporation A
can perform such service. In this case the service provided by Corporation A for markets outside of Puerto Rico does not have a Nexus with Puerto Rico. Corporation B is considered the "intermediate business".

(5) A governmental unit of any national, state or local government (including any agency, instrumentality, public corporation or political subdivision thereof), other than the Government of Puerto Rico or any municipality within Puerto Rico.

**Article 2031.01(c)-1. - Link with Puerto Rico; Export of Services.**

(a) Export Services will be considered to have a Link with Puerto Rico if they are provided to a Domestic Person or if they are related to the operations in Puerto Rico of a current or proposed client of the Export Services provider, including services related to the following:

(1) A trade or business or activity for the production of income that has been or will be carried out by the client in Puerto Rico

(A) A trade or business or activity for the production of income that has been or will be carried out by the client in Puerto Rico when it is carried out, in whole or in part, from a facility located in Puerto Rico, whether such facility is leased or otherwise available to the business and whether such facility is a factory, warehouse, distribution center, office or other structure. This provision can be illustrated with the following examples.

**Example 1.** - Corporation B receives services from a service provider in Puerto Rico. Those services are related to the manufacture of Corporation B's products in Puerto Rico. The services have a link to Puerto Rico.

**Example 2.** - Corporation C is incorporated under the laws of Puerto Rico, but conducts its business in Florida, without conducting any part of those activities in Puerto Rico. The services received by Corporation C with respect to its Florida branch will not have a Nexus with Puerto Rico, but the services related to its incorporation in Puerto Rico, operations in Puerto Rico and filing of any required information with the Government of Puerto Rico will have a Nexus with Puerto Rico.

**Example 3.** - Corporation A, which has an Export Services Decree, is incorporated under the laws of Puerto Rico. Corporation A is contracted by Corporation B to provide eligible services to markets outside of Puerto Rico. Corporation B is a company organized under the laws of Puerto Rico. Corporation B contacts clients outside of Puerto Rico so that Corporation A can perform such service. In this case the service
provided by Corporation A for markets outside of Puerto Rico does not have a Nexus with Puerto Rico.

(2) Advice on the laws and regulations of Puerto Rico, including statutory laws and regulations issued thereunder, administrative procedures or rulings of the Government of Puerto Rico, its agencies, public corporations, instrumentalities or municipalities and judicial precedents of the Courts of Puerto Rico.

(3) Lobbying on Puerto Rico's laws, regulations, other administrative pronouncements and businesses in which the government could participate. For these purposes, lobbying means any direct or indirect contact with elected officials, employees or agents of the Government of Puerto Rico, its agencies, instrumentalities, public corporations or municipalities, with the purpose of trying to influence any action or determination of the Government of Puerto Rico, its agencies, instrumentalities, public corporations or municipalities.

(4) Sale of any property for use, consumption or final disposal by the client in Puerto Rico.

(A) This paragraph shall not apply for purposes of Section 2031.01(a)(5) of the Code and Article 2031.01(a)-1(a)(5) of these Regulations in relation to ticket sales outside of Puerto Rico and ticket sales that are purchased by tourists in Puerto Rico, as well as the proceeds related to the presentation, transmission or sale of rights of a recording for audiences outside of Puerto Rico, of events, shows and musical productions and eSports and Fantasy Leagues events to be held in Puerto Rico.

(B) This arrangement can be illustrated with the following example:

Example. - Corporation A receives services from a service provider in Puerto Rico. Those services relate to the sale of property owned by Corporation A for use by factories in Puerto Rico. The services have a link to Puerto Rico.

(5) Services with respect to the fulfillment of any settlement obligation owed by the client to the Government of Puerto Rico, its agencies and instrumentalities, public corporations or municipalities.

(6) Services provided or contracted by the Government of Puerto Rico, its agencies and instrumentalities, public corporations or municipalities.

Article 2031.01(h)-1. - Eligible Business; Export Services and Promoter Services.

(a) For purposes of the Code, an Eligible Business is a Person with a bona fide office or facility located in Puerto Rico, which conducts or may conduct Eligible Activities, which are in turn considered Export Services or Promoter Services. An office or establishment is considered bona fide if it is commercially reasonable and necessary
for a business of its nature. For example, for a sole proprietorship or other small business, a home office may be all that is reasonable and necessary, depending on the nature of the business activities. For purposes of the Code, an Eligible Business that owns or has owned a Decree issued under prior Incentive Laws, including, but not limited to, Law No. 20-2012, as amended, Law No. 73-2008, as amended, Law No. 135-1997, as amended, or Law No. 8-1987, as amended, may apply for a Decree under the Code and in accordance with the procedures set forth therein. In considering the request, the DDEC Secretary, in consultation with the Secretary of the Treasury, may consider the fact that the Eligible Business has previously owned such Decree under a previous law, as well as the compliance by the Eligible Business with the terms and conditions of that previous Decree, when deciding whether the issuance of a Decree to the Eligible Business is in the best economic and social interests of Puerto Rico.

(1) A business cannot be an Eligible Business if it has an Executive Decree under any other incentive law covering Eligible Activities, unless:

(A) The Decree was issued under Law 273-2012 and Eligible Services are not part of the Decree under Law 273;

(B) Commits in writing to deliver that earlier Decree before the Decree under this Code becomes effective, or by amending the earlier Decree to exclude Eligible Services, before the Decree under this Code becomes effective; or

(C) Subject to the approval of the DDEC Secretary, an Exempt Business that holds a Decree under Act No. 20-2012, as amended, transfers the Decree under such Act to a third party before the Decree under this Code becomes effective.

Article 2031.02(a)-1. -Eligible Export Trade Activities.

(a) In the case of activities that are considered Export Trade, Eligible Activities will be those that have no connection with Puerto Rico carried out by Persons with an office or bona fide establishment located in Puerto Rico that are or may be dedicated to the traffic or export of products ("trading companies") that earn no less than eighty percent (80%) of their gross income from the following categories of activities, as defined below:

(1) From the sale to Foreign Persons, for use, consumption or disposal outside of Puerto Rico, of products purchased by the Eligible Business for resale;

(2) From commissions derived from the sale of products for use, consumption or disposal outside of Puerto Rico; however, it is provided that no part of the income derived from the sale or resale of products for use, consumption or disposal in Puerto Rico will be considered Export Trade Income;
(3) From the sale of products manufactured or grown to order, to Foreign Persons, for their use, consumption or disposal outside of Puerto Rico;

(4) From the sale or distribution to Persons outside of Puerto Rico of Intangible Property, such as patents, inventions, formulas, processes, designs, patterns, knowledge (know-how), copyrights, business secrets, literary, musical or artistic compositions, trademarks, trade names, brand names, franchises, licenses, contracts, methods, programs, systems, procedures, capital gains, campaigns, surveys, studies, trials, projections, estimates, customer lists, technical data or any other similar property;

(5) Storage, transportation and distribution of products and items belonging to third parties ("hubs") - Includes, but is not limited to, businesses that provide services to meet the demand for goods manufactured by other parties by distributing or handling the distribution of such goods to those who use, consume or dispose of them.

(A) This provision applies only to storage activities with respect to products that are:
   (i) Not manufactured, refined or packaged in Puerto Rico; and
   (ii) Intended for use, consumption or disposal outside of Puerto Rico.

(B) This provision applies to distribution and shipping services with respect to shipments that do not originate or terminate in Puerto Rico.

   (i) Example. - ShipCo, an international shipping service establishes a center in Puerto Rico. Three categories of packages travel through the center: (1) packages that originate in Puerto Rico and are destined for use outside of Puerto Rico; (2) packages that originate outside of Puerto Rico and are destined for use within Puerto Rico; and (3) packages that originate outside of Puerto Rico and are destined outside of Puerto Rico. Only activities related to packages in the third category will qualify as Eligible Services.

(C) The company requesting the exemption cannot obtain title to the goods. Goods that are stored and/or distributed must belong to a third party, so storage of items owned by that third party is excluded from the Code.

(6) Of the commercial and mercantile distribution of products that are manufactured or grown in Puerto Rico for jurisdictions outside of Puerto Rico;

(7) Of assembly, bottling and packaging operations of products belonging to third parties for export;

(8) Any other international commercial traffic activity that the DDEC Secretary deems eligible, taking into consideration the nature of the activities to be
carried out, the direct or indirect benefits of the commercial activity for Puerto Rico and any other factor that is pertinent to achieve the objectives of this Code because it is understood that such treatment is in the best economic and social interests of Puerto Rico.

**Article 2031.02(c)-1. - Link with Puerto Rico; Export Trade.**

(a) Export Trade Services will be considered to have a Nexus with Puerto Rico if they are provided to a Domestic Person and if they are related to the operations in Puerto Rico of a current or proposed client of the Export Trade Services provider, including services related to the following:

1. Sale of any property for use, consumption or final disposal by the client in Puerto Rico.

   (A) This arrangement can be illustrated with the following example:

   **Example.** - Corporation C receives services from a service provider in Puerto Rico. Those services relate to the sale of C Corporation property to be used by factories in Puerto Rico. The services have a Nexus to Puerto Rico.

**Section 2031.02(d)-1. - Eligible Business; Export Trade.**

(a) For purposes of the Code, an Eligible Business is a Person with a bona fide office or establishment located in Puerto Rico, which carries out or may carry out Eligible Activities, which in turn are considered Export Trade. An office or establishment is considered bona fide if it is commercially reasonable and necessary for a business of its nature. For example, for a sole proprietorship or other small business, a home office may be all that is reasonable and necessary, depending on the nature of the business activities. For purposes of the Code, an Eligible Business that owns or has owned a Decree issued under prior Incentive Laws, including, but not limited to, Law No. 20-2012, as amended, Law No. 73-2008, as amended, Law No. 135-1997, as amended, or Law No. 8-1987, as amended, may apply for a Decree under the Code and in accordance with the procedures set forth therein. In considering the request, the DDEC Secretary, in consultation with the Secretary of the Treasury, may consider the fact that the Eligible Business has previously owned such Decree under a previous law, as well as the compliance by the Eligible Business with the terms and conditions of that previous Decree, when deciding whether the issuance of a Decree to the Eligible Business is in the best economic and social interests of Puerto Rico.

1. A business cannot be an Eligible Business if it has an Executive Decree under any other incentive law covering Eligible Activities, unless:
(A) Committed in writing to deliver that earlier Decree before the Decree under this Code becomes effective, or by amending the earlier Decree to exclude Eligible Services, before the Decree under this Code becomes effective; or

(B) Subject to the approval of the DDEC Secretary, an Exempt Business that holds a Decree under Act No. 20-2012, as amended, transfers the Decree under such Act to a third party before the Decree under this Code becomes effective.

SUBCHAPTER B. - TAX BENEFITS

Article 2032.01(a)-1. - Contribution on Export Revenue from Services and Promoter Services.

(a) The fixed preferential rate of income tax to which a Person who holds a Decree under Chapter 3 of Subtitle B of the Code for purposes of Export Services and Promoter Services shall be subject to that set forth in Section 2032.01(a) of the Code.

Article 2032.01(b)-1. - Special Rules for Promoter Services.

(a) Notwithstanding Section 2032.01(a) of the Code and Article 2032.01(a)-1 of these Regulations, an Eligible Business that has a Promoter Services Decree shall only be entitled to the flat fee set forth in Section 2032.01(a) of the Code for the period provided for in Section 1020.03(a)(3) of the Code.

(1) The provisions of this Article can be illustrated by the following example:

Example. - Company A has a Decree with a fixed rate of 4% that expires in 2035 and performs Promoter Services for clients. On January 1, 2020, it begins performing Promoter Services for Customer Y, which begins a New Business on December 31, 2020. For its efforts, Company A receives payments of $10,000 for work performed during 2020 and $5,000 for work performed during 2021. On January 1, 2021, Company A begins performing Promoter Services for Customer Z, which starts a New Business on December 31, 2021. For its efforts, Company A receives payments of $7,000 from Client Z for work performed during 2021. The net revenue earned by Company A for work performed in 2020 for Client Y will be subject to the 4% rate, and the
net revenue earned by Company A for work performed in 2021 for Client Z will be subject to the 4% rate, but the net revenue earned by Company A for work performed for Client Y in 2021 will not benefit from the 4% rate because the work was performed outside the period set forth in Code Section 1020.03(a)(3).

(b) Providers of Promoter Services will pay taxes on their net income computed in accordance with the Puerto Rico Internal Revenue Code and/or any Decree, as applicable, except as provided below. Therefore, if the income is not income that qualifies for the benefits of Chapter 3 of Subtitle B of the Code pursuant to a Decree, it will be subject to taxes on the rates provided in the Internal Revenue Code.

(c) Notwithstanding the foregoing, if a Promoter who holds a Decree under Chapter 3 of Subtitle B of the Code rendered what it expects to be Promoter Services during a Tax Year, but by the last day of that Tax Year, the client has not established a New Business in Puerto Rico and then the client establishes such business before the due date of the tax return for that Tax Year, considering extensions, or the date such tax return is actually filed, the Promoter may apply the tax rate fixed in its Decree to such income to the extent that it complies with the requirements of Section 1020.03(a)(3) of the Code. However, if the customer has not established a New Business in Puerto Rico by that date, the Promoter may not treat such income as income from Promoter Services or apply the tax rate set forth in the Decree to such business on that basis.

(1) The provisions of this paragraph may be illustrated by the following examples.

**Example 1.** - Company A has a Decree under Chapter 3 of Subtitle B of the Code and provides services to a foreign corporation, Company X, for the purpose of inducing Company X to initiate a New Business in Puerto Rico. At the end of Company A's Tax Year 1, Company X has not yet established such business. However, prior to the due date of Company A's tax return for Tax Year 1, which is the date Company X files such tax return, Company X has established a New Business and Company A's income otherwise satisfies the requirements for treatment as Export Services Income. Such income will be taxed at the tax rate set forth in Company A's Decree.

Assume the same facts as in Example 1, except that prior to the due date of Company A's tax return for Tax Year 1, Company X has not established a New Business in Puerto Rico. Company A's income from services to Company X cannot be treated as Promoter Services income on Company A's tax return for Tax Year 1 and cannot be taxed at the rate set forth in Company A's Decree on that basis.

(a) If a Promoter provided what it expects to be Promoter Services during a Tax Year, but by the due date of the return for that Tax Year, considering extensions, the customer has not
established a New Business in Puerto Rico, but after the due date of the Promoter's return for that Tax Year, considering extensions it does, so that it would have qualified as Export Services Income had the New Business been established on time, the Promoter may not amend its tax return for that prior year to treat that income as Export Services Income. However, the Promoter may calculate the amount of income earned in the prior year that would have been treated as Promoter Services Income if the New Business in Puerto Rico had been established on time ("last year's Promotional Income") and may treat a portion of its income in the current year that would otherwise be subject to the Internal Revenue Code tax rates equal to last year's Promoter Services Income at the tax rate set forth in the Decree. If the Promoter lacks income taxed at regular rates sufficient to absorb the amount in such year, the excess may be carried forward for three (3) subsequent years until it is fully absorbed, provided that, if the Promoter ceases to do business or is acquired by another Entity, which is not part of a reorganization treated as exempt under the Internal Revenue Code, any amount not yet absorbed shall lapse without being used.

Example. - Suppose Company A has a Decree under the Code and obtains $25,000 of net service revenue in year 1 that would have been Promoter Services if Company A's customer had established a New Business in Puerto Rico before the due date of Company A's tax return. Such income is taxed in year 1 at the Internal Revenue Code rates. Let us also assume that after Company A files its tax return, Company A's customer establishes a New Business in Puerto Rico and the entire amount of $25,000 is somehow eligible to be treated as Export Services Income. In the next year, Company A has $40,000 of net income, $5,000 of which is income covered by its Decree and $35,000 of which is taxable income under the Internal Revenue Code. Company A may treat $25,000 of that $35,000 as covered by its Executive Decree so that it has $30,000 of income in that year subject to the tax rate as set forth in its Executive Decree and $10,000 subject to taxation under the Internal Revenue Code.

Section 2032.01(c)-1. - Entry of Base Period in Export of Services and Promoter Services.

(a) General rule. - Any Eligible Business which at the time of application for the benefits of this Chapter has commenced operations and was engaged in the activity for which the benefits of this Chapter 3 of Subtitle B of the Code are claimed, or had engaged in such activity at any time during the period of three (3) Taxable Years preceding the date of filing of the application, known as the "Base Period," shall be assessed the
fixed rate of income tax provided in Section 2032.01(a) of the Code, but only with respect to the net income from such activity in excess of its "Base Period Income", which is the average annual net income earned from the activity during the Base Period.

(b) In determining Base Period Revenue with respect to Promoter Services, the Eligible Business shall only be obligated to take into account revenue during the Base Period from services that were or could have been treated as Promoter Services, if the Act had been in effect and the Person in question had a Decree under Chapter 3 of Subtitle B of the Code.

(1) For purposes of applying the provisions of this section, if the Eligible Business previously conducted the activity for only a portion of the Base Period, the Base Period Revenue will be calculated only by reference to the period during which the business conducted the activity. If the Eligible Business only conducted the activity for a portion of one or more years during the Base Period, the revenues for that partial year included in the Base Period Revenue calculation may be subject to annualization, as indicated below.

(A) If the Eligible Business began the activity during a year in the Base Period and continued to perform that activity during the remainder of the Base Period, the amount of that year's revenue included in Base Period Revenue will be annualized by multiplying the revenue in question by a fraction, whose numerator is 365 and whose denominator is the number of days during the year in question that the Eligible Business performed the activity.

(B) If the Eligible Business routinely engages in the activity for only a portion of each year for valid business reasons and can prove that fact to the satisfaction of the Secretary of the Treasury, an annualization of the amounts earned in the activity will not be required to compute Base Period Income.

(C) If the Eligible Business conducted the activity for a portion of one year during the Base Period, but then stopped conducting the activity for the remainder of that year and any subsequent years in the Base Period, only the revenue actually earned during the partial year in which the activity stopped will be included in the calculation of Base Period Revenue.

(D) Notwithstanding Subparagraph (C), the Secretary of the Treasury may determine that an Eligible Business artificially commenced and ceased an activity for a year with the intent to restart that activity, in order to reduce its Base Period Income, and in making such determination, may
calculate Base Period Income by applying the annualization rule with respect to that year's income.

(E) The provisions of the previous paragraph may be illustrated with the following examples.

**Example 1.** - Company A is an Eligible Business applying for a Decree under Chapter 3 of Subtitle B of the Code on January 1, 2020. Company A performed the activity for which it is applying for an Executive Decree during each of the three Taxable Years prior to the date of its application. Company A earned net income of $500,000, $600,000 and $652,000, respectively, from the activity in those three Taxable Years. Company A's Base Period Income is $584,000 and only net income derived from the Eligible Business in excess of $584,000 may be subject to the flat tax rate under the Decree.

**Example 2.** - Company B is an Eligible Business applying for a Decree under Chapter 3 of Subtitle B of the Code on January 1, 2020. Company B conducted the activity for which it is applying for an Executive Decree for a 200-day period during the first of the three Taxable Years prior to the date of its application, during which it earned $195,000. Company B's Base Period Revenue is determined by reference only to the year during which it conducted that activity and the $195,000 need not be annualized in computing Company B's Base Period Revenue.

**Example 3.** - Assume the same facts as in Example 2, except that Company B continues to carry out the activity for the next two years, earning $300,000 and $350,000 respectively. Company B's income for the first year should be annualized by multiplying $195,000 by 365/200. Therefore, Company B's base period income is $335,292 (($355,875 + $300,000 + $350,000) /3) and only net income derived from the Eligible Business in excess of $335,292 may be subject to the flat tax rate under the Decree.

**Example 4.** - Company C performs an activity for about 200 days each year and ceases the activity for a valid business reason for the other 165 days due to the seasonality of the demand for the activity. Only Company C's current income from the activity during the three years of the Base Period should be considered in the calculation of Base Period Income.

**Example 5.** - Company D starts an activity in the last year of the Base Period. After conducting that activity for nine months and earning $500,000, Company D decides that it should apply for an Executive

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Decree starting on the first day of the next year and in order to keep its Base Period income as low as possible, it ceases to conduct business for the rest of the year, with the expectation of recovering the activity on the first day of the next year. The Secretary of the Treasury may determine that the temporary cessation of business was artificially carried out for the purpose of reducing its Base Period Income and may determine the Base Period Income by requiring Company D to annualize its income of $500,000, resulting in a Base Period Income of $667,000.

**Example 6.** - Company C is a calendar year taxpayer and an Eligible Business applying for a Decree under Chapter 3 of Subtitle B of the Code on March 1, 2020. Its Base Period Income includes the Taxable Years ending December 31, 2017, December 31, 2018, and December 31, 2019.

(c) The Base Period Income will be subject to the income tax rates provided by the Puerto Rico Internal Revenue Code. In the case of Entities with Tax-Exempt Decrees for Export Services activities pursuant to Law 73-2008, Law 135-1997, and Law 8 of January 24, 1987, the fixed rate established in the Decree for Base Period Income shall apply, and the distribution of profits and benefits derived from such income shall not qualify for the treatment provided for in this Chapter.

**Article 2032.01(c)(1)-1. - Entry of Base Period in Case of a Predecessor Business; Export of Services and Promoter Services.**

(a) For the purpose of determining Base Period Income, the activities and net income of any predecessor business to the applicant business during the Base Period shall be taken into account for the portion of the Base Period in which such predecessor business has conducted the activity for which a Decree is sought or maintained. For this purpose, "predecessor business" shall include any operation, activity, industry or business carried out by another business, if the applicant owns or has acquired, directly or indirectly, fifty percent (50%) or more of the Shares of such business (measured by the total value of all Shares issued and outstanding on the date(s) of acquisition) or fifty percent (50%) or more of the assets of such business (measured by the total value of such assets on the date(s) of acquisition) that were used to carry on the activity for which benefits under Chapter 3 of Subtitle B of the Code are claimed, regardless of whether it operated under a different legal name or ownership. For purposes of this section, employees and other individuals, such as partners, are not considered assets. However, in the event that employees or other personnel of a customer service business (former business) move to another customer service business (new business) in conjunction with contracts and customers of the former business, they may be considered acquired assets if the following conditions are met.
First, the employees or personnel must have significant customer service responsibility in relation to these prior business contracts. Second, the customers of the former business must become customers of the new business within one (1) year from the date the employees or other personnel start working at the new business. In the event that both conditions are fully met, these acquired assets will be valued based on the annual or annualized income they produce. An example where this situation could occur would be in a legal, accounting or consulting firm.

(1) In the event the applicant owns or acquires the shares of the predecessor business, all income of the predecessor business for that part of the Base Period prior to such acquisition attributable to the activity for which benefits are claimed under Chapter 3 of Subtitle B Code shall be included in the calculation of the applicant's Base Period Income. If the predecessor business only conducted the activity for which benefits under this Chapter are sought for a portion of the Base Period, the same annualization rules described in Article 2032.01(c)-1(b)(1) of these Regulations shall apply.

(2) In the event the applicant acquires assets from the Predecessor Business, all income from the Predecessor Business for that part of the Base Period prior to such acquisition attributable to the activity for which Code benefits are sought will be included in the calculation of the applicant's Base Period Income. Notwithstanding the preceding sentence, if the Predecessor Business whose assets were acquired by the applicant also continues to perform Eligible Services after the licensee acquires less than one hundred (100) percent of its assets used in the eligible activity, the portion of the Predecessor Business' revenue included in the licensee's Base Period Revenue will be determined by allocating to the Base Period Revenue a portion of the Predecessor Business' net revenue attributable to the activity for which Code benefits are sought for the period prior to the acquisition equal to the percentage of the Predecessor Business' assets that were used in that activity that the licensee acquired. If the Predecessor Business only conducted the activity for which Code benefits are sought for a portion of the Base Period, the same annualization rules described in Section 2032.01(c)-1(b)(1) of these Regulations will apply.

(b) For the purpose of determining Base Period Income, the activities and net income of any Affiliate of the petitioning business during the Base Period shall be taken into account during that part of the Base Period in which such Affiliate conducted the activity for which a Decree is sought. If the Affiliate only conducted the activity for which the benefits of Chapter 3 of Subtitle B of the Code are sought for a portion of the Base Period, the same annualization rules described in Article 2032.01(c)-1(b)(1) of these Regulations shall apply.
(c) Any business which files an application for a Decree within three hundred and sixty-five (365) days from the date it began the activity for which it is applying for Code benefits shall not be subject to the benefit limitation provided in Article 2032.01(c)-1 of these Regulations.

(d) The provisions of Articles 2032.01(c)(1)-1(a) and (b) of these Regulations may be illustrated by the following examples.

**Example 1.** - Company A is an Eligible Business requesting a Decree under Chapter 3 of Subtitle B of the Code for Activity X. Immediately prior to filing its application, Company A acquires 75% of the Shares of Company B, which was conducting Activity X during the previous three years. In calculating its Base Period Revenue, Company A must include the net income earned by Company B from the conduct of Activity X throughout the Base Period.

Assume the same facts as in Example 1, except that Company A acquires 75% of Company B's Shares at the end of the first year of the Base Period. In calculating its Base Period Income, Company A must include the net income earned by Company B in conducting Activity X for the entire Base Period, as Company B was its Predecessor Business for the first year and its Affiliate for the following two (2) years.

**Example 3.** - Company C is an Eligible Business requesting a Decree under the Code for Activity X. Immediately prior to filing its application, Company C acquires 75% of the assets of Company D, which constitute all of the assets that were used by Company D in the conduct of Activity X during the previous three years and as a result, Company D ceases to conduct Activity X. In calculating its Base Period Revenue, Company C must include the net income earned by Company D in carrying out Activity X for the entire Base Period.

**Example 4.** - Assume the same facts as in Example 3, except that Company C acquires 75% of Company D's assets used in Activity X at the end of the first year of the Base Period and Company D continues to use its remaining assets to conduct Activity X. In computing its Base Period Revenue, Company C must include 75% of the net income earned by Company D in the performance of Activity X for the first year of the Base Period as Company D was its predecessor business for the first year and continues to perform the activity.

(e) If the holder of an Export Services Decree acquires during the period of its Decree another activity that provides eligible Export Services which may also be covered by the Decree, only the revenues earned by that other business that exceed the Base Period Revenue of that other business, calculated as described in Section 2032.01(c)-1, may be eligible for the fixed rate of income tax provided for in Section 2032.01 of the Code and only after the inclusion of the activities of such acquired business in the Decree is requested and approved by the DDEC Secretary. A licensee acquires another business for purposes of this section if it acquires fifty percent (50%)
or more of the Shares of such business (measured by the total value of all Shares issued and outstanding on the date(s) of acquisition) or fifty percent (50%) or more of the assets of such business (measured by the total value of such assets on the date(s) of acquisition) that were used to conduct the business for which the benefits of this Chapter are claimed under the Code, regardless of whether it was operating under a different legal name or ownership.

(1) The provisions of the previous paragraph may be illustrated with the following example:

**Example.** - Company A has a Decree under Chapter 3 of Subtitle B of the Code. During the term of its Decree, it acquires Company B, which performs eligible Export Services that could be covered by Company A's Decree. During the three years prior to the acquisition of Company B, Company B's revenues attributable to those activities averaged $100,000. After the acquisition and approval by the DDEC Secretary of the inclusion of Company B's activities in the Decree, only Company B's revenues in excess of $100,000 qualify for the fixed rate of contribution on revenues provided by Chapter 3 of Subtitle B of the Code.

**Article 2032.01(c)(3)-1. - Calculation to Determine Base Period Income: Export of Services and Promoter Services.**

(a) Base Period Income shall be adjusted, reducing such amount by twenty-five percent (25%) annually, until it is reduced to zero (0) for the fourth Taxable Year of application of the terms of the Exempt Business Decree as provided in this Chapter.

(1) The provisions of the previous paragraph may be illustrated with the following example:

**Example.** - Company A is an Eligible Business requesting a Decree under Chapter 3 of Subtitle B of the Code on January 1, 2020. Company A performed the activity for which it is applying for an Executive Decree during each of the three Taxable Years prior to the date of its application. Company A earned net income of $500,000, $600,000, and $652,000, respectively, from the activity in those three Taxable Years. Company A's Base Period Income is $584,000 and only net income derived from the Eligible Business in excess of $584,000 may be subject to the flat tax rate under the Decree. Under this section, this amount will be reduced annually by $146,000 ($584,000 - ($584,000* 25%)) until it is completely reduced to zero for the fourth Taxable Year. For Tax Year 2020 the Base Period Income will be reduced to $438,000, for Tax Year 2021 it will be reduced to $292,000, for Tax Year 2022 it will be reduced to $146,000 and for Tax Year 2023 it will be reduced to zero.
(b) If the DDEC Secretary determines that any applicant manipulated his or her income in any way to reduce his or her Base Period Income, for example, by delaying the receipt of income until after his or her application is filed which he or she would have received in the ordinary course before such application was filed, the DDEC Secretary may calculate Base Period Income in a manner that eliminates the effect of such manipulation. The fact that an applicant manipulated his income may be considered as part of the assessment of whether the approval of an Executive Decree is in the best economic and social interests of Puerto Rico.

**Article 2032.02(b)(1)-1. - Entry of Base Period into Export Trade.**

(a) **General rule.** - Any Eligible Business which at the time of application for the benefits of this Chapter has commenced operations and was engaged in the Export Trading activity for which the benefits of this Chapter are claimed under the Code, or had engaged in such activity at any time during the period of three (3) Taxable Years preceding the date of filing of the application, known as the "Export Trading Base Period," the Eligible Business with an issued Decree shall be entitled to the fixed rate of income tax provided in Section 2032.02(a) of the Code, but only with respect to net income from such activity in excess of its "Export Trade Base Period Income," which is the average annual net income earned from the activity during the Export Trade Base Period.

(1) For purposes of applying the provisions of this section, if the Eligible Business previously conducted the activity for only a portion of the Export Trade Base Period, the Export Trade Base Period Revenue will be calculated only by reference to the period during which the business conducted the activity. If the Eligible Business only conducted the activity for a portion of one or more years during the Export Trade Base Period, the revenues for that partial year included in the Export Trade Base Period Revenue calculation may be subject to annualization, as indicated below.

(A) If the Eligible Business initiated the activity during a year in the Export Trade Base Period and continued to conduct that activity during the remainder of the Export Trade Base Period, the amount of that year's revenue included in the Export Trade Base Period Revenue will be annualized by multiplying the revenue in question by a fraction, the numerator of which is 365 and the denominator of which is the number of days during the year in question on which the Eligible Business conducted the activity.

(i) If the Eligible Business routinely engages in the activity for only a portion of each year for valid business reasons and can prove that fact to the satisfaction of the Secretary of the Treasury, an
annualization of the amounts earned in the activity will not be required to compute the Export Trade Base Period Revenue.

(ii) If the Eligible Business conducted the activity for a portion of one year during the Export Trade Base Period, but then ceased to conduct the activity for the remainder of that year and any subsequent years in the Export Trade Base Period, only the revenue actually earned during the partial year in which such activity ceased will be included in the calculation of the Export Trade Base Period Revenue.

(iii) Notwithstanding the provisions of subsection (ii), the Secretary of the Treasury may determine that an Eligible Business artificially commenced and ceased an activity for a year with the intent to restart that activity, in order to reduce its Export Trading Base Period Revenue, and in making such determination, may calculate Export Trading Base Period Revenue by applying the annualization rule with respect to that year's revenue.

(iv) The provisions of the previous paragraph may be illustrated with the following examples.

Example 1. - Company A is an Eligible Business applying for a Decree under Chapter 3 of the Code on January 1, 2020. Company A performed the activity for which it is applying for an Executive Decree during each of the three Taxable Years prior to the date of its application. Company A earned net income of $500,000, $600,000, and $652,000, respectively, from the activity in those three Taxable Years. Company A's Base Period Income is $584,000 and only net income derived from the Eligible Business in excess of $584,000 may be subject to the flat tax rate under the Decree.
Example 2. - Company B is an Eligible Business applying for a Decree under Chapter 3 of Subtitle B of the Code on January 1, 2020. Company B conducted the activity for which it is applying for an Executive Decree for a 200-day period during the first of the three Taxable Years prior to the date of its application, during which it earned $195,000. Company B's Export Trade Base Period revenue is determined by reference only to the year during which it conducted that activity and the $195,000 need not be annualized in computing Company B's Export Trade Base Period revenue.

Example 3. - Assume the same facts as in Example 2, except that Company B continues to carry out the activity for the next two years, earning $300,000 and $350,000 respectively. Company B's income for the first year should be annualized by multiplying $195,000 by 365/200. Therefore, Company B's Export Trading Base Period Revenue is $335,292 (($355,875 + $300,000 + $350,000) /3) and only net income derived from the Eligible Business in excess of $335,292 may be subject to the tax rate fixed under the Decree.

Example 4. - Company C performs an activity for about 200 days each year and ceases the activity for a valid business reason for the other 165 days due to the seasonality of the demand for the activity. Only Company C's current revenues earned from the activity during the three years of the Export Trading Base Period should be considered in the calculation of Export Trading Base Period Revenue.

Example 5. - Company D initiates an activity in the last year of the Export Trade Base Period. After conducting that activity for nine months and earning $500,000, Company D decides that it should apply for an Executive Decree beginning on the first day of the next year and in order to keep its Export Trade Base Period Revenue as low as possible, it ceases to conduct business for the remainder of the year, with the expectation of recovering the activity on the first day of the next year. The Secretary of the Treasury may determine that the temporary cessation of business was carried out artificially for the purpose of reducing its Export Trade Base Period Income and may determine the Export Trade Base Period Income by requiring Company D to annualize its income of $500,000, resulting in an Export Trade Base Period Income of $667,000.

(b) The Base Period Income will be subject to the income tax rates provided by the Puerto Rico Internal Revenue Code. In the case of Entities with Tax-Exempt Decrees for Export Services activities pursuant to Law 73-2008, Law 135-1997, and Law 8 of January 24, 1987, the fixed rate established in the Decree for Base Period Income shall apply, and the distribution of profits and benefits derived from such income shall not qualify for the treatment provided for in this Chapter.

Article 2032.02(b)(2)-1. - Entry of Base Period in Case of a Predecessor Business: Export Trade.

(a) For purposes of determining the Export Trade Base Period Income, the activities and net income of any predecessor business to the petitioning business during the Export Trade Base Period shall be taken into account during that part of the Export Trade Base Period in which such predecessor business has conducted the activity for which a Decree is sought or maintained. For this purpose, "Predecessor Business" shall include any operation, activity, industry or business carried on by another business, if the applicant owns or has acquired, directly or indirectly, fifty percent (50%) or more of the Shares of such business (measured by the total value of all Shares issued and outstanding on the date(s) of acquisition) or fifty percent (50%) or more of the assets of such business (measured by the total value of such assets on the date(s) of acquisition) that were used to carry on the activity for which benefits under Chapter 3 of Subtitle B of the Code are claimed, regardless of whether it operated under a different legal name or ownership. For purposes of this section, employees and other individuals, such as partners, are not considered assets. However, in the event that employees or other personnel of a customer service business (former business) move to another customer service business (new business) in conjunction with contracts and customers of the former business, they may be considered acquired assets if the following conditions are met. First, the employees or personnel must have significant customer service responsibility in relation to these prior business contracts. Second, the customers of the former business must become customers of the new business within one (1) year from the date the employees or other personnel start working at the new business. In the event that both conditions are fully met, these acquired assets will be valued based on the annual or annualized income they produce. An example where this situation could occur would be in a legal, accounting or consulting firm.
In the event the applicant owns or acquires the shares of the predecessor business, all income of the predecessor business from that part of the Export Trade Base Period prior to such acquisition attributable to the activity for which benefits are claimed under Chapter 3 of Subtitle B of the Code shall be included in the calculation of the applicant's Export Trade Base Period Income. If the Predecessor Business only conducted the activity for which benefits under this Chapter are sought for a portion of the Export Trade Base Period, the same annualization rules described in Article 2032.02(b)(1)-1(a)(1) of this Regulation shall apply.

In the event the applicant acquires assets from the Predecessor Business, all income of the Predecessor Business from that part of the Export Trade Base Period prior to such acquisition attributable to the activity for which Code benefits are claimed will be included in the calculation of the applicant's Export Trade Base Period Income. Notwithstanding the preceding sentence, if the Predecessor Business whose assets were acquired by the applicant also continues to perform Eligible Services after the licensee acquires less than one hundred percent (100%) of its assets used in the eligible activity, the portion of the Predecessor Business' revenue included in the dealer's Export Trade Base Period Revenue will be determined by allocating to the Export Trade Base Period Revenue a portion of the Predecessor Business' net revenue attributable to the activity for which Code benefits are sought for the period prior to the acquisition equal to the percentage of the Predecessor Business' assets that were used in that activity that the dealer acquired. If the Predecessor Business only conducted the activity for which Code benefits are sought for a portion of the Export Trading Base Period, the same annualization rules described in Article 2032.02(b)(1)-1 of these Regulations will apply.

For purposes of determining Export Trade Base Period Income, the activities and net income of any Affiliate of the petitioning business during the Export Trade Base Period will be taken into account during the part of the Export Trade Base Period in which such Affiliate conducted the activity for which a Decree is sought. If the Affiliate only conducted the activity for which the benefits of Chapter 3 of Subtitle B of the Code are sought for a portion of the Export Trade Base Period, the same annualization rules described in Article 2032.02(b)(1)-1 of these Regulations shall apply.

Any business which files an application for a Decree within three hundred and sixty-five (365) days from the date it began the activity for which it is applying for Code benefits shall not be subject to the benefit limitation provided in Article 2032.02(b)(1)-1 of these Regulations.
(d) The provisions of Articles 2032.02(b)(2)-1(a) and (b) of these Regulations may be illustrated by the following examples.

**Example 1.** - Company A is an Eligible Business requesting a Decree under Chapter 3 of Subtitle B of the Code for Activity X. Immediately prior to filing its application, Company A acquires 75% of the Shares of Company B, which was conducting Activity X during the previous three years. In computing its Export Trading Base Period Revenue, Company A must include the net income earned by Company B in conducting Activity X during the entire Export Trading Base Period.

Assume the same facts as in Example 1, except that Company A acquires 75% of Company B's Shares at the end of the first year of the Export Trading Base Period. In calculating its Export Trade Base Period Revenue, Company A must include the net income earned by Company B in conducting Activity X for the entire Export Trade Base Period, as Company B was its Predecessor Business for the first year and its Affiliate for the following two years.

**Example 3.** - Company C is an Eligible Business requesting a Decree under the Code for Activity X. Immediately prior to its application, Company C acquires 75% of the assets of Company D, which constitute all of the assets that were used by Company D in the conduct of Activity X during the previous three years and as a result, Company D ceases to conduct Activity X. In calculating its Export Trade Base Period Revenue, Company C must include the net revenue earned by Company D in the conduct of Activity X for the entire Export Trade Base Period.

**Example 4.** - Assume the same facts as in Example 3, except that Company C acquires 75% of Company D's assets used in Activity X at the end of the first year of the Export Trading Base Period and Company D continues to use its remaining assets to conduct Activity X. In computing its Export Trade Base Period Revenue, Company C must include 75% of the net revenue earned by Company D in the execution of Activity X for the first year of the Export Trade Base Period as Company D was its predecessor business for the first year and continues to execute the activity.

(e) If the holder of an Export Trade Decree for eligible export trade activities acquires during the period of its Decree another activity that provides eligible export trade activities which could also be covered by the Decree, only the revenues earned by that other business that exceed the Export Trade Base Period Revenue of that other business, calculated as described in Section 2032.02(b)(1)-1, may be eligible for the fixed rate of revenue assessment provided for in Section 2032.02 of the Code and only after the inclusion of the activities of such acquired business in the Decree is requested and approved by the DDEC Secretary. A licensee acquires another business for purposes of this section if it acquires fifty percent (50%) or more of the Shares of such business (measured by the total value of all Shares issued and outstanding on the date(s) of acquisition) or fifty percent (50%) or more of the assets of such business...
(measured by the total value of such assets on the date(s) of acquisition) that were
used to conduct the business for which the benefits of this Chapter are claimed under
the Code, regardless of whether it was operating under a different legal name or
ownership.

1) The provisions of the previous paragraph may be illustrated with the
following example:

Example. - Company A has a Decree under Chapter 3 of Subtitle B of the
Code. During the term of its Decree, it acquires Company B, which conducts
eligible Export Trading activities that could be covered by Company A's
Decree. During the three years prior to the acquisition of Company B,
Company B's revenues attributable to those activities averaged $100,000.
After the acquisition and approval by the DDEC Secretary of the inclusion of
Company B's activities in the Decree, only Company B's revenues in excess of
$100,000 qualify for the fixed rate of contribution on revenues provided by
Chapter 3 of Subtitle B of the Code.

Article 2032.02(b)(4)-1. - Computation to Determine Base Period Income: Export Trade.

(a) Base Period Income shall be adjusted, reducing such amount by twenty-five percent
(25%) annually, until it is reduced to zero (0) for the fourth Taxable Year of
application of the terms of the Exempt Business Decree as provided in this Chapter.

1) The provisions of the previous paragraph may be illustrated with the
following example:

Example. - Company A is an Eligible Business requesting a Decree under
Chapter 3 of Subtitle B of the Code on January 1, 2020. Company A
performed the activity for which it is applying for an Executive Decree during
each of the three Taxable Years prior to the date of its application. Company A
earned net income of $500,000, $600,000, and $652,000, respectively, from
the activity in those three Taxable Years. Company A's Base Period Income is
$584,000 and only net income derived from the Eligible Business in excess of
$584,000 may be subject to the flat tax rate under the Decree. Under this
section, this amount will be reduced annually by $146,000 ($584,000 -
($584,000* 25%)) until it is completely reduced to zero for the fourth Taxable
Year. For Tax Year 2020 the Base Period Income will be reduced to $438,000,
for Tax Year 2021 it will be reduced to $292,000, for Tax Year 2022 it will be
reduced to $146,000 and for Tax Year 2023 it will be reduced to zero.

(b) If the DDEC Secretary determines that any applicant manipulated his or her
income in any way to reduce his or her Export Trade Base Period Income, for
example, by delaying the receipt of income until after his or her application is filed
which he or she would have received in the ordinary course before such
application was filed, the DDEC Secretary may calculate the Export Trade Base Period Income in a manner that eliminates the effect of such manipulation. The fact that an applicant manipulated his income may be considered as part of the assessment of whether the approval of a Decree is in the best economic and social interests of Puerto Rico.

SUBCHAPTER C. - RESERVED

SUBCHAPTER D. - SPECIAL PROVISIONS

Article 2034.01(a)(1)-1. -Qualified Promoter.

(a) Means a Person or Entity that meets the requirements set forth in Section 2034.01 of the Code and Article 2034.01(a)(3)-1 of these Regulations.
(b) To obtain the designation of Qualified Promoter, the Person or Entity shall be an owner, shareholder, member or full-time employee of an Entity that has a Promoter Services Decree, as defined in Section 1020.03 of the Code and these Regulations, and shall file an affidavit with the DDEC Secretary showing that it meets the requirements set forth in Section 2034.01 of the Code and these Regulations.
(1) This arrangement can be illustrated with the following example:

Example. - A Qualified Promoter is a full time employee of Entity X, which has a Promoter Services Decree. At the time the Qualified Promoter ceases to be an employee of Entity X, it will have to notify Invest Puerto Rico, Inc. of its change of status and obtain employment with another Entity that has a Promoter Services Decree or establish its own company and obtain a Promoter Services Decree in order to maintain its designation as a Qualified Promoter.

Section 2034.01(a)(2)-1. - Qualified Promoters Program.

(a) Invest Puerto Rico, Inc. in conjunction with the DDEC Secretary, will design a Qualified Promoters Program. The Program shall contain guidelines regarding the administration, execution and monitoring of the Qualified Promoter incentive according to the public policy determinations established by the DDEC Secretary, and in accordance with the purposes of the Code. The Program shall be reviewed by Invest Puerto Rico, Inc. in conjunction with the DDEC Secretary, at least every three (3) years.
(b) The Qualified Promoters Program will be designed and adopted to facilitate the participation of Qualified Promoters as a sales and business development force for Puerto Rico on a global level.
(c) The Qualified Promoter Program shall establish the criteria to be met by the Qualified Promoter to be eligible to receive the incentive provided for in Section 2034.01(a)(8) of the Code. The minimum criteria to satisfy this requirement shall be as follows:

1. The Qualified Promoter makes promotional arrangements with the New Business in Puerto Rico that result in the business’ interest in doing business in Puerto Rico;

2. The Qualified Promoter and the New Business in Puerto Rico appear before Invest Puerto Rico, Inc. to register the New Business in Puerto Rico as an Entity interested in establishing itself in Puerto Rico, in whole or in part by the guidance provided by the Qualified Promoter, in which case the registration shall state that the promoter of such Entity is the Qualified Promoter appearing; and

3. The Qualified Promoter carries out the efforts established in the Qualified Promoter Program to promote the establishment of the New Business in Puerto Rico.

(d) The Service Agreements shall be in accordance with the provisions of the Qualified Promoters Program and these Regulations.

(e) Report. - Invest Puerto Rico, Inc. will submit an annual report to the DDEC Secretary detailing the performance of the Qualified Promoter Program, including a breakdown by Qualified New Business Promoter in Puerto Rico, number of incentives approved, number of incentives disbursed and other performance parameters of the Qualified Promoter Program and information requested by the DDEC Secretary.

**Article 2034.01(a)(2)-2. - Designation of Qualified Promoter.**

(a) The DDEC Secretary shall evaluate the petition according to the criteria set forth in Section 2034.01 of the Code and these Regulations within a period of thirty (30) days from the filing of the petition, unless there is good cause. If the DDEC Secretary, in consultation with Invest Puerto Rico, Inc. determines that the applicant meets the established criteria and has paid the corresponding fees, he will issue a notice of appointment of Qualified Promoter to the applicant.

(b) The designation shall be valid for a period of three (3) years from the time the designation is approved, unless the designation is revoked for failure to comply with the requirements imposed by the DDEC Secretary and the service agreement. Compliant Qualified Promoters may request an extension of the designation for an additional three (3) year period. After a term of six (6) years, considering the three (3) year designation plus the extension of the additional three (3) years, Qualified Promoters must reapply for approval of the designation and submit the appropriate rights.
(c) The DDEC Secretary, in collaboration with Invest Puerto Rico, Inc. may limit the number of Qualified Promoters appointed during any particular year, in order to effectively manage communications and timely response to New Business in Puerto Rico. In this case, the candidates for the designation of Qualified Promoters who complete the application process, submit the application to the DDEC Secretary and are eligible for the designation, will be included in a waiting list until additional Qualified Promoters are designated.

(d) The designation as a Qualified Promoter will be non-transferable.

**Article 2034.01(a)(2)-3. - Denial or Revocation of Designation of Qualified Promoter**

(a) **Denial.** - The DDEC Secretary may deny any application when it determines that the Qualified Promoter candidate does not meet the requirements set forth in these Regulations and the Qualified Promoter Program. In the event of a denial, the applicant may request reconsideration from the DDEC Secretary within twenty (20) days of receiving notice of denial.

(b) **Revocation.** –

1. The DDEC Secretary may revoke the designation of a Qualified Promoter if

   (A) The Qualified Promoter does not meet the administrative, training or performance requirements set forth in the Qualified Promoter Program and service agreement;

   (B) It is discovered that the Qualified Promoter does not possess the requirements to hold the designation;

   (C) It is discovered that the Qualified Promoter has made false or unethical representations to a potential New Business in Puerto Rico, including, but not limited to, the following:

      (i) That the Qualified Promoter has or can provide the New Business in Puerto Rico with privileged access to an official of the Government of Puerto Rico;

      (ii) That the Qualified Promoter can influence the determination of any aspect of the implementation of the Incentive Code;

      (iii) That the Qualified Promoter can influence the obtaining of a contract between the New Business in Puerto Rico and the Government of Puerto Rico;

   (D) The Qualified Promoter is convicted of a felony or misdemeanor that violates public morals and order;

   (E) The Qualified Promoter ceases to be an owner, shareholder, member or full-time employee of an Entity that has a Promoter Services Decree for a period longer than thirty 30 days and fails to notify Invest Puerto Rico, Inc.
(F) The Qualified Promoter does not apply for an extension of its designation before the end of the initial three (3) year period of performance as a Qualified Promoter as stipulated in the service agreement with Invest Puerto Rico, Inc. or if it has already been extended for a second designation of three (3) additional years, the Qualified Promoter does not apply again for a new designation.

(2) **Revocation Process.** - In cases of revocation of the Qualified Promoter designation, the Qualified Promoter shall have the opportunity to appear and be heard at a hearing before a designated DDEC employee who shall report his or her findings and recommendations to the DDEC Secretary.

**Article 2034.01(a)(3)-1. - Eligibility.**

(a) The Qualified Promoter must meet all the criteria set forth herein:

(1) Hold a bachelor's degree from an accredited university;
(2) Have no less than five (5) years of professional experience in your area of expertise (i.e. accounting, finance, marketing, planning, international trade, law, economics, science, engineering, real estate or other related fields);
(3) Demonstrate ability to understand and express yourself adequately on matters related to the establishment of businesses in Puerto Rico;
(4) Submit a certification of criminal records that does not reflect the commission of serious or less serious crimes against public morals and order;
(5) Demonstrate knowledge and experience in the business sectors and industries identified by the DDEC and Invest Puerto Rico, Inc. in the Qualified Promoters Program for investment in Puerto Rico;
(6) Demonstrate access to networks of companies, investors and individuals that are likely to move or expand to Puerto Rico;
(7) Complete a "Pre-Eligibility" meeting prior to submitting the application to the DDEC Secretary pursuant to Article 2034.01(a)(3)-2 of these Regulations
(8) Represent a variety of competencies and skills in specific industry sectors, legal services, financial services and other relevant industries;
(9) Demonstrate a high level of knowledge in doing business in Puerto Rico; willingness to coordinate closely with the DDEC and Invest Puerto Rico, Inc. and commitment to transparency and integrity; and
(10) Complete the orientation, incorporation and training requirements required by the Qualified Promoters Program.

(b) To the extent that the Qualified Promoter is an Entity, the requirements set forth herein shall apply at the level of the partners, members or shareholders of such Entity, as applicable.
Article 2034.01(a)(3)-2. - Pre-Eligibility Meeting.

(a) During the "Pre-Eligibility" meeting between the Qualified Promoter candidate and Invest Puerto Rico, Inc. provided for in paragraph (7) of section (a) of Article 2034.01(a)(3)-1 of these Regulations, the candidate shall submit to Invest Puerto Rico, Inc. an explanatory memorandum describing compliance with the eligibility criteria of section (a) of Article 2034.01(a)(3)-1 of these Regulations.

(b) The candidate must submit to Invest Puerto Rico, Inc. a letter requesting that the date of the "Pre-Eligibility" meeting be certified.

(c) Invest Puerto Rico, Inc. will issue a confirmation to that effect, or will indicate to the candidate the reasons why the date of the meeting held cannot be considered as the date of the "Pre-eligibility" meeting.

(d) In the event that Invest Puerto Rico, Inc. does not respond to the candidate's request for certification within ten (10) days, the date established in the certification request will be considered as the date of the "Pre-eligibility" meeting as long as evidence is presented that the request for certification date was duly submitted and received by Invest Puerto Rico, Inc., such as, for example, acknowledgement of receipt of certified mail or a stamped copy of the certification request.

(e) The DDEC Secretary may determine that the date of the "Pre-Eligibility" meeting is a different date than the one established by Invest Puerto Rico, Inc., if he understands that the best interests of the Government of Puerto Rico so require.

(f) Except as provided in paragraph (e) of this Article, promotional efforts made prior to the "Pre-Eligibility" meeting shall not be considered for purposes of the Code Section 2034.01(a)(8) incentive.

Article 2034.01(a)(3)-3. - Responsibilities and Duties.

(a) Qualified Promoters will have the following responsibilities in their promotional efforts:

(1) Participate in courses required by the Qualified Promoters Program in the following areas:

   (A) Ethical training;

   (B) Fundamentals of economic development, Puerto Rico's business environment and sectors, incentives, business licenses, permits, Customer Relationship Management (CRM) training and best business development practices; and

   (C) Other areas that advance the purposes of the Qualified Promoters Program.
(2) Sign and adhere to confidentiality/non-disclosure agreements between Invest Puerto Rico, Inc. and the Qualified Promoter, as applicable;

(3) Provide periodic reports as required by the Qualified Promoter Program, including information on contacts, activities and progress of Qualified Promoters

(4) Maintain lead/prospect management data, files and reports using the Invest Puerto Rico, Inc;

(5) Attend information and update sessions on marketing and business development activities, as required by the Qualified Promoters Program

(6) You may not work or have worked as a Certified Professional for the New Business in Puerto Rico or participate in the process of preparing financial statements, income tax returns, or in the issuance of annual reports for the New Business in Puerto Rico;

(7) You may not be a shareholder in the New Business in Puerto Rico or be related in second degree of consanguinity with a shareholder in the New Business in Puerto Rico;

(8) Use sales and marketing materials provided by Invest Puerto Rico, Inc. Any promotional materials used by Qualified Promoters must be in accordance with the Qualified Promoter Plan and approved by Invest Puerto Rico, Inc. prior to distribution in print, digital or social media, including information posted on the Qualified Promoters' websites;

(9) You will receive access and adequate information to facilitate your efforts and streamline communication and reporting functions with the DDEC Secretary and Invest Puerto Rico, Inc.

**Article 2034.01(a)(8)-1. - Incentive.**

(a) The total incentive available to the Qualified New Business Promoter consists of an amount equal to fifty percent (50%) of the amount that enters the Economic Incentive Fund and is transferred to Invest Puerto Rico, Inc. by reason of the income tax paid to the Secretary of the Treasury for the New Business in Puerto Rico. The incentive will be paid for a term of ten (10) tax years from the date the New Business has been established in Puerto Rico, as long as the New Business is operating in Puerto Rico as an Exempt Business.

(b) The incentive payment shall be made annually in accordance with subsection (9) of paragraph (a) of Section 2034.01 of the Code and these Regulations.

(c) As a general rule, the incentive will be payable in equal parts in cases where more than one Qualified Promoter participates in the promotional effort of a New Business in Puerto Rico and receives such designation by Invest Puerto Rico, Inc. with respect
to a New Business in Puerto Rico. The provisions of this section are illustrated with
the following examples.

(1) **Example.** - Qualified Promoter A and Qualified Promoter B agree to travel to
Germany to meet with a medical device company. As a result of the efforts of both
promoters, the company establishes operations in Puerto Rico. The Promoters
have two options to receive the incentive:

(A) The Qualified Promoter A signs the service agreement with Invest Puerto
Rico, Inc. and therefore, it is to whom the incentive disbursements are
made. Qualified Promoter A may by private agreement distribute the
incentive with Qualified Promoter B, provided it complies with the
requirements of Section 2034.01(a)(6) of the Code.

(b) In the alternative, both Qualified Promoters A and B may appear and be
designated as promoters of the company, in which case the incentive will
be disbursed in equal parts by Invest Puerto Rico, Inc. between both
promoters.

(2) **Example.** - Qualified Promoter A and Professional B agree to travel to Italy to
meet with a drug manufacturing company. As a result of the efforts of both, the
company establishes operations in Puerto Rico. In this case, Qualified Promoter A
must sign the service agreement with Invest Puerto Rico, Inc. and therefore, it is to
whom the total incentive disbursements are made. Qualified Promoter A may,
through a private agreement, distribute the incentive with Professional B as long
as it complies with the requirements of Section 2034.01(a)(6) of the Code.

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**Section 2034.01(a)(9)-1. - Service Agreement.**

(a) The service agreement set forth in subsection (9) of paragraph (a) of Section 2034.01
of the Code between the Qualified Promoter and Invest Puerto Rico, Inc. shall be in
accordance with the Qualified Promoter Program. The agreement will detail the terms
and conditions for receiving the incentive pursuant to subsection (8) of paragraph (a)
of Section 2034.01 of the Code and Article 2034.01(a)(8)-1 of these Regulations.

(b) Invest Puerto Rico, Inc. will enter into a service agreement with each Qualified
Promoter and these agreements will be identical for all Qualified Promoters, except
for the addendum to be used to include a New Business in Puerto Rico as an approved
project, pursuant to paragraph (d) of this article.

(c) A Qualified Promoter who is an owner, shareholder, member or full-time employee of
an Entity that has a Promoter Services Decree must update its contract with the name
of the applicable Entity no later than thirty (30) days after any change occurs.

(d) Invest Puerto Rico, Inc. will amend, by addendum, the service agreement it has
established with the Qualified Promoter to include a New Business in Puerto Rico as a
project promoted by such promoter, when Invest Puerto Rico, Inc. has determined that the Qualified Promoter has met the criteria set forth in the Qualified Promoter Program to be eligible to receive the incentive provided for in Section 2034.01(a)(8) of the Code.

(e) The service agreements between Invest Puerto Rico, Inc. and each Qualified Promoter, as well as all its "addendums" will be public documents.

(f) The Qualified Promoter will continue to receive the corresponding incentive due even after his designation as a Qualified Promoter has expired as long as the designation has not been revoked in accordance with the provisions of Article 2034.01(a)(2)-3 of these Rules.

Article 2034.01(a)(9)-2. - Process for Incentive Disbursement.

(a) The amounts due to Invest Puerto Rico, Inc. from income taxes paid by New Businesses in Puerto Rico and collected by the Department of the Treasury in connection with Eligible Activities covered by an Executive Decree must be requested annually by the DDEC Secretary as part of the budget process of the Economic Incentive Fund and transferred to Invest Puerto Rico, Inc. as part of the annual transfers established in the agreement between the DDEC and Invest Puerto Rico, Inc.

(b) Invest Puerto Rico, Inc. will coordinate and submit all required information to the Department of the Treasury to determine the appropriate calculations and allocation of the Economic Incentive Fund to Invest Puerto Rico, Inc.

(c) For disbursement of the applicable incentive under subsections (8) and (9) of paragraph (a) of Section 2034.01 of the Code, the Qualified Promoter shall comply with the requirements set forth in the Qualified Promoter Program and shall receive the incentive in accordance with the service agreement on an annual basis.

Article 2034.01(a)(10)-1. - Distribution of Incentive to more than one Qualified Promoter.

(a) Invest Puerto Rico, Inc. will adopt the necessary guidelines in the Qualified Promoter Program to address cases where more than one Qualified Promoter contributes significantly to the promotional management of a new business in Puerto Rico. Such guidelines shall be designed in accordance with the provisions of Article 2034.01(a) (8)-1(c) of these Regulations.

(b) Once a Qualified Promoter has been designated as such for a New Business, such designation may not be changed to add another Qualified Promoter.
CHAPTER 4. - FINANCE, INVESTMENTS AND INSURANCE

SUBCHAPTER A. - ELIGIBILITY

Article 2041.01-1. - International Financial Institutions .

(a) An International Financial Entity will be considered an Eligible Business as long as it is any Entity that is incorporated or organized under the laws of Puerto Rico, the United States or a foreign country, or a Unit of such Entity, authorized to do business in Puerto Rico, if it complies with the provisions of Subchapter D of Chapter 4, Subtitle B of the Code and Act No. 273 of September 25, 2012, "International Financial Center Regulatory Act", applicable to such business. It is further provided that it shall comply with the required minimum number of employees established in Article 13 and paragraph (b) of Article 5 of the International Financial Center Regulatory Act .

SUBCHAPTER B. - TAX BENEFITS

Article 2042.01(a)(2)-1. - International Financial Institutions .

(a) In the case of an International Financial Entity operating as a Unit of a bank, the net income, computed pursuant to Section 1031.05 of the Puerto Rico Internal Revenue Code, derived by the International Financial Entity from the activities permitted by the International Financial Center Regulatory Law that exceeds twenty percent (20%) of the total net income derived in the Taxable Year by the bank from which it operates as a Unit (including the income derived by such Unit), shall be subject to the tax rates provided in the Puerto Rico Internal Revenue Code for corporations and partnerships.

(1) For example, Unit X is an International Financial Institution that operates as a Bank Y Unit. Bank Y had a net income of one million dollars ($1,000,000) in 2020. For that same Tax Year, Unit X had a net income, computed pursuant to Section 1031.05 of the Puerto Rico Internal Revenue Code, of three hundred thousand dollars ($300,000). In said Taxable Year, Unit X will pay one hundred thousand dollars ($100,000) at the tax rates set forth in the Puerto Rico Internal Revenue Code for corporations and partnerships [$300,000 - ($1,000,000 x 20%) = $100,000].
Article 2042.01(c)-1. - International Financial Institutions.

(a) The effective date of a Decree granted under Section 2041.01 of the Code shall be the date of commencement of operations indicated in the International Finance Institution License issued by the Office of the Commissioner of Financial Institutions.

(1) The Private Equity Funds and the Private Equity Funds of Puerto Rico will be seventy-five percent (75%) exempt from the imposition of property taxes imposed by the "Municipal Property Tax Law", including tangible and intangible movable and immovable property belonging to them.

(2) The Private Capital Funds and the Private Capital Funds of Puerto Rico that only own movable property exempted under Section 5.01 of Law 83-1991, as amended, known as "Municipal Property Tax Law of 1991", or any successor law, shall be exempted from filing the corresponding property tax return provided for in said Law 83-1991 or successor law.

SUBCHAPTER C. - REQUIREMENTS FOR THE GRANTING OF EXEMPTION

Article 2043.01-1. - Requirements for Applications for Decrees

(a) Private Equity Funds - Application for Decree. - The Application for Decrees of Private Capital Funds and Private Capital Funds of Puerto Rico (for purposes of this section the "Fund") shall comply with the requirements of Article 6020.01(b)(2)-1 of these regulations, subject to the following exceptions:

(1) The information required as to partners, shareholders or members under paragraph (a) shall be required only with respect to the Managing Partner; subject to the Fund's filing after the first issue of capital and on a monthly basis, as applicable, a notice containing the names, social security or employer's social security numbers, date of birth, physical and mailing address and percentage of ownership of each Investor.

(b) Private Capital Funds; Transfer of the Decree. - The Decree shall be non-transferable, but shall not lose its effectiveness by reason of a change in the Managing Partner, a change of control over the Managing Partner's Shares, or by reason of a merger or consolidation of the Managing Partner, provided that such change, change of control, merger or consolidation, as the case may be, is approved by the DDEC Secretary pursuant to Section 6020.07 of the Code. Issues of equity and/or changes in the Fund's Investors shall not constitute a change of control in the Fund and shall be subject to notification within thirty days as provided in Code Section 6020.07(c).
SUBCHAPTER D. - SPECIAL PROVISIONS

Article 2044.01(b)-1. - International Financial Institution.

(a) Confiden5iality. - The information provided to the DDEC Secretary pursuant to this Chapter 4 of Subtitle B of the Code and these Regulations shall be kept confidential, except:

(1) When disclosure is required by law or court order;

(2) At the formal request of a domestic or foreign government agency in the exercise of its supervisory function when the DDEC Secretary believes it is in the best public interest. In such a case, the information shall be provided under a binding agreement with DDEC in order to maintain the confidentiality of such information. This exception shall in no way extend to information about the International Finance Corporation's clients; or

(3) In any other case, as required by the "International Financial Centre Act".

(A) The DDEC Secretary may also disclose the information in those cases where the disclosure is made for the purpose of assisting the DDEC Secretary, the Commissioner of Financial Institutions or other authority in carrying out their regulatory duties.

Article 2044.02(c)-1. - International Insurers and Holding Companies of International Insurers.

(a) Confiden5iality. - The information provided to the DDEC Secretary pursuant to this Chapter and the Code shall be kept confidential, except

(1) When disclosure is required by law or court order; or

(2) At the formal request of a domestic or foreign government agency in the exercise of its supervisory function when the DDEC Secretary believes it is in the best public interest. In such a case, the information shall be provided under a binding agreement with DDEC in order to maintain the confidentiality of such information. This exception shall in no case extend to information about the International Insurer's clients.

(3) The DDEC Secretary may also disclose the information in those cases where the disclosure is made for the purpose of assisting the DDEC Secretary, the Commissioner of Insurance or other authority in carrying out their regulatory duties.
Article 2044.02-2. - Interest.

(a) The International Holding Company will present a certification to the Commissioner of Insurance of Puerto Rico and the Secretary of the Treasury no later than the last day in which the Annual Statement required under Article 61.100 of the Insurance Code of Puerto Rico must be filed, in which it includes all International Insurers in which the International Holding Company has a direct or indirect interest.

(b) If the International Holding Company has an interest in more than one International Insurer or International Holding Company, the deadline for the presentation of such certification will be the last date for the filing of the Annual Statements of such companies as required under Article 61.100 of the Insurance Code of Puerto Rico.

(c) The certification will include the following information from the International Insurance Holding Company:
   (1) Name;
   (2) Address;
   (3) Identification number;
   (4) Value of the following categories of Assets:
      (A) Shares or other securities issued by an international insurer or by a holding company of an international insurer
      (B) Shares or other securities issued by other insurers as described above;
      (C) Securities or assets necessary for the operations ("Operating Assets") of the businesses incidental to the insurance business;
      (D) Cash, cash equivalents and investment portfolio
      (E) Other assets with an aggregate value, as reflected in such International Holding Company's financial statements, not exceeding five percent (5%) of the total assets of the International Holding Company, as permitted by subparagraphs (A), (B), (C) and (D) of paragraph (4) of paragraph (c) of this Article; and
      (F) A representation to the effect that the holding company qualifies, in accordance with Chapter 61 of the Insurance Code of Puerto Rico, as an International Insurance Holding Company.

(d) The certification must be certified as correct to the best of the knowledge of a principal officer of the International Insurance Holding Company. The principal officers, in the case of a corporation or limited liability company, include the president, vice president, treasurer, assistant treasurer, secretary, assistant secretary, managing director, or any other officer or director authorized to sign such certification. The principal officers, in the case of a partnership, are any of the general partners, and in the case of a trust, will be the minimum number of trustees required to bind the trust.
(e) Certification is only required for International Holding Companies that enjoy the tax exemptions provided for in Section 2042.02 of the Code.

**Article 2044.02-2. - Corporate Transactions.**

(a) If the Insurance Commissioner of Puerto Rico determines that the International Holding Company has participated in any transaction or series of transactions whose main purpose was to obtain assets in excess of the limits set forth in Article 61.040(2) (d) and (3) of the Insurance Code of Puerto Rico and paragraph 1.(iii)(4) and 2 of Regulation 7508 of the Office of the Commissioner of Insurance of Puerto Rico, or to otherwise avoid the imposition of taxes on collections, income, profits, assets, operations or transactions to which a legal entity of Puerto Rico or its shareholders may be subject, such entity shall not be entitled to receive the tax treatment provided in Section 2042.02 of the Code; providing, however, that the DDEC Secretary shall retain the discretion to grant or continue to grant the tax benefits of Section 2042.02 of the Code if he determines that notwithstanding such purpose such transaction or series of transactions also have a justifiable and substantial business purpose.

**Article 2044.03(a)(6)-1. - Advisory Board.**

(a) Members, Responsibilities, Terms, Conflicts of Interest

(1) The Fund shall establish an advisory board (the "Board") consisting of a minimum of three (3) members, appointed by the Managing or General Partner pursuant to the Fund's partnership or limited liability company agreement.

(2) Board members shall be appointed for a minimum of one (1) year and members so appointed shall hold office until their successors are appointed or elected and take office. Any vacancy occurring before the expiration of a term shall be filled as provided in the Fund's partnership or limited liability company agreement. Board members shall have six (6) or more years of financial industry experience, unless none of them meet this requirement, in which case the members with the most experience in the financial industry shall be selected. At least one of the Board’s Accredited Investors or Limited Partners must be on the Board to serve as a forum for investors to discuss and evaluate issues of interest to them about the Fund. In addition, ADIR shall be a member of the Board.
CHAPTER 5. - VISITOR ECONOMY

SUBCHAPTER A. - ELIGIBILITY

Article 2051.01(b)-1. - Other terms, phrases and definitions.

(a) For purposes of the Tourist Activities outlined in Section 2051.01 of the Code and these Regulations, the following terms and definitions shall have the meanings set forth below.

(1) **Start of Construction.** - Means the date when the earth movement started on the project in question according to the corresponding permit. The date will be certified to the Tourism Office by the Exempt Business or Eligible Business, as the case may be.

(2) **Start of Operation.** - Means the date when the first guest or client who pays for the service offered by the Tourist Activity receives it. The date will be certified to the Tourism Office by the Exempt Business or Eligible Business, as the case may be.

(3) **Design Guides for Ecotourism and Sustainable Tourism Facilities** - Means the official guides, created by the Tourism Office, that establish the evaluation criteria for the development of ecotourism and sustainable tourism facilities.

(4) **Operational Guides for Ecotourism and Sustainable Tourism Facilities** - Means the official guides, created by the Tourism Office, that establish the evaluation criteria for the certification of ecotourism or sustainable tourism operation and determine the level of compliance for the Tourism Office's Certification Program for Sustainable Tourism Facilities.

(5) **Room.** - Means an accommodation unit for rent with a private bathroom, subject to a daily rate or another typical period in the tourism industry.

(6) **Lodging.** - Means any facility or building, group of buildings or part of a building or facility endorsed by the Tourism Office that operates, in the interest of tourism, for the accommodation of Guests by payment, which meets the requirements approved by the Tourism Office, and includes the following categories: Hotel, Guest House, Tourist Villa, Condo Hotel, Hostel and "Bed and Breakfast".

(7) **Guest.** - Means any person who, for a fee, uses, possesses or has the right or intent to use or possess any room in the Lodging, for a specified period. It shall include:
(A) The tenant for tourism purposes, regardless of the form of lease, if any, to remain in the place for a maximum of ninety (90) days;

(B) Any Person who enters the premises of a Lodging intending to stay, having or not become a Guest;

(C) Any Person who is on the premises of a Lodging to enjoy the facilities and entertainment, such as: restaurants, pools, bars, stores and similar establishments; or

(D) Any use, possession or right authorized by Law No. 85-1956, as amended, known as the Puerto Rico Hotel Law.

(8) **Operator.** - Means the owner of an Inn or Lodging, or any Person who directly or through a contractual arrangement with the owner of an Inn or Lodging, in the capacity of an agent of the owner of an Inn or Lodging, is responsible for the operation of the Inn or Lodging, for compliance with these Regulations.

(8) **Green Certification Program.** - Means the certification program that covers the following certification sub-programs: Ecotourism and Sustainable Tourism facilities, Agritourism and Ecotourism.

(9) **Promotional Program.** - Means the promotional program of the Tourism Office for all the Lodgings endorsed by the Tourism Office that comply with this Regulation.

(10) **Residential Tourist Project.** - Means a concept of tourist development that combines mixed uses of tourist Lodgings and Residences, such as: Condo Hotel; "Bed and Breakfast"; Residences for rent through a Condo Hotel Program that forms an integral part and is associated to a tourist development that includes at least one Hotel type Lodging or Tourist Village.

(11) **"Resort"**. - Means an integrated development of nature, fundamentally, tourist within a master-planned community that includes a Hotel, destination or tourist complex that has restaurants; open spaces and gardens; commercial spaces; area to receive groups and conventions; a variety of sport and recreational activities (aquatic, equestrian, golf, etc.); activities for children; or swimming pools, amenities and services that satisfy the needs of the Guest in a complex.

(12) **Tourism.** - Means any activity that a Person performs during their trips and stays in places other than their usual environment, for some time less than one (1) year, whose purposes are for leisure, recreation, business or other reasons.

(13) **Tourist or Visitor.** - Means any Person who moves from their habitual residence to another geographical point, being absent from their habitual
residence for more than twenty-four (24) hours in another geographical point for leisure, recreation, business or other reasons.

(14) **Unity**. - Means a space, room or set of rooms (keys) of a Lodging duly registered with the Tourism Office.

**Article 2051.01(b)-2. - Companies engaged in Tourist Activities.**

(a) In addition to the Tourism Activities included in Section 2051.01 of the Code, any New Tourism Business or Existing Tourism Business, as the case may be, engaged in one of the Tourism Activities mentioned in paragraph (b) of this Article, that is not covered by a Resolution, Grant or Decree granted under Act No. 52-1983, as amended, known as the "Tourism Incentives Act," Act No. 78-1993, as amended, known as the "Puerto Rico Tourism Development Act," Act No. 74-2010, as amended, known as the "Puerto Rico Tourism Development Act of 2010," or being covered, waives the Resolution, Grant or Decree in favor of a Decree under the Code.

(b) The ownership or administration of:

1. A Timeshare and Vacation Club Plan that is located in Puerto Rico, except as provided in paragraph (1) of paragraph (b) of Section 2051.01 of the Code;

2. The operation of a business of any chain, franchise, brand or business whose owner is recognized locally or internationally with a presence in Puerto Rico, the United States of America or internationally that
   (A) Be established in the Puerto Rico Convention Center District; and
   (B) Be it dedicated to entertainment, gastronomy or other activities that, due to their unique design, popularity and reputation in their market, present a special attraction for internal and external tourism;

3. The operation of a business engaged in leasing to an Exempt Business engaged in an activity covered by subsections (i) or (ii) of paragraph (1) of section 2051.01(b) of the Code, except that nothing herein applies to contracts called financial leases.
   (A) To be considered as a Tourist Activity, the business cannot be included within the guidelines published by the Secretary of the Treasury in the Administrative Determinations that regulate the financial leasing business or within the parameters of the financial leasing business established in the Internal Revenue Code.
   (B) Leasing a room to a Hotel that is an Exempt Business qualifies as long as
   (i) The room is purchased by the hotel's landlord in a buy and sell transaction;
(ii) The Room is used by the Hotel as part of its Tourist Activity before the acquisition by the landlord;

(iii) The lease of the Room to the Hotel occurs immediately after the purchase of the Room by the landlord;

(iv) The Room to be rented is used by the Hotel as part of its Tourist Activity;

(v) The minimum term of the lease is equal to or greater than the remaining term of the Hotel Decree counted from the acquisition of the Room by the lessor;

(vi) The acquisition is approved by the DDEC Secretary according to Code Section 2054.01; and

(vii) Any other terms and conditions required by the DDEC Secretary are met.

(4) When leasing one or more vessels to an Exempt Business, the sailing or motor vessels shall be leased to the Exempt Business for a total period of not less than six (6) months during each Calendar Year.

(A) It shall not be necessary that the ownership or administration referred to in this paragraph reside in the same Person, providing that both activities separately qualify as Tourist Activity without the need for the confusion of Person.

(B) It is not necessary the ownership of the property on which the Tourist Activity is carried out.

(5) “eSports” activities and Fantasy Leagues, as these terms are defined in Act No. 81-2019, known as the "Act of the Gaming Commission of the Government of Puerto Rico".

Article 2051.01(b)-3. - Reserved.

Article 2051.01(b)-4. - Golf Courses.

(a) For purposes of the Tourist Activities included in subsection (1)(b)(ii) of Section 2051.01 of the Code, the term "Golf Course" means land used for the sport of golf containing a minimum of nine (9) holes.

(b) The Golf Course must be associated with or operated by a Hotel that is an Exempt Business or comprised within a Resort to be considered a Tourist Activity.

(c) For purposes of the Code and these Rules, the phrase "associated with a Hotel" means that there is a formal agreement between the owner or manager of the Golf Course and the Hotel which is an Exempt Business, whereby the Guests of the Hotel will enjoy the right to use the Golf Course, even if there is an additional payment for the use.
Article 2051.01(b)-5. - Medical Treatment Clinics.

(a) For purposes of the Tourist Activities included in paragraph (1)(b)(ii) of Section 2051.01 of the Code, the term "Medical Treatment Clinic" means any facility used to provide medical treatment to patients. The Medical Treatment Clinic shall:

(1) To be included in a Lodging under the program of the Tourism Office; or

(2) Be associated with or operated by an Lodging under a Tourism Office program that is an Exempt Business to be considered a Tourist Activity, including any Medical Treatment Clinic located on the grounds of:

(A) The Luis Muñoz Marín International Airport in the Municipality of Carolina
(B) The Rafael Hernández Airport in the Municipality of Aguadilla
(C) The Mercedita International Airport in the Municipality of Ponce; and
(D) The Jose Aponte de la Torre Airport in the Municipality of Ceiba.

(3) Possession of the Medical Tourism Certification issued under the Medical Tourism program recognizing that the facility complies with the criteria, standards and procedures applicable to Law No. 196-2010, as amended, known as the Medical Tourism Act of Puerto Rico", any other successor or analogous law and the regulations issued under it.

(b) The term "medical treatment" means any type of service provided by physicians or other health care professionals to patients, including hospitalizations, surgeries, treatments for the control of human diseases, preventive treatments, weight control treatments, rehabilitation and addiction control treatments, and cosmetic procedures.

(c) For purposes of the Code and these Regulations, the phrase "associated with a Hotel" means that there is a formal agreement between the owner or administrator of the Medical Treatment Clinic and the Hotel which is an Exempt Business, whereby patients of the Medical Treatment Clinic traveling from any jurisdiction outside of Puerto Rico may stay at the Hotel, even if there is an additional payment for the use.

Article 2051.01(b)-6. - Theme Park.

(a) For purposes of the Tourism Activities included in subsection (1)(b)(ii) of Section 2051.01 of the Code, the term "Theme Park" means any permanent structure facility that under a specific or unifying theme stimulates tourism by providing an opportunity for recreation, leisure, and enjoyment by residents and visitors.

(b) The Theme Park may be associated with or operated by a Hotel that is an Exempt Business or comprised within a Resort, to be considered a Tourist Activity. It may combine the main attraction with additional attractions, such as intriguing walks or roads, theme walks, game rooms, kiosks and others.
(c) **Requirement.** - The installations will be developed around a particular theme, created exclusively by artificial means or by artificial means in conjunction with the natural elements, which constitutes an attraction to internal or external tourism due to its particular characteristics, the uniqueness of the chosen theme or its relationship with culture. Some themes considered within this term are:

1. **Water theme.** - As a general rule, it should be located with direct access to the ocean, bays, lakes, lagoons, rivers or, failing that, design and develop the theme based on the water element.

2. **Cultural or historical theme.** - Must use elements of the history, culture, and geography of the world; includes theaters with plays, artisan's village and IMAX theaters.

3. **Theme on natural resources.** - It must contain attractions related to our natural resources or representative activities; it includes forests, flora and fauna.

(d) For purposes of the Code and these Regulations, the phrase "associated with a Hotel" means that there is a formal agreement between the owner or administrator of the Theme Park and the Hotel that is an Exempt Business, by which the Guests of the Hotel will enjoy the right to use the Theme Park, even if there is an additional payment for the use.

**Article 2051.01(b)-7. - Operational and Physical Requirements of General Application to a Lodging.**

(a) **Purpose.** - To provide to all the Hospitals, as defined in these Regulations, the criteria with which they will have to fulfill for their classification and evaluation, namely

1. To provide an integrated system of evaluation and inspection of the physical and operational aspects of a Lodging to ensure the quality of the tourism product in the Lodgings of Puerto Rico.

2. Classify the type of accommodation to which it corresponds, taking into account the facilities, the number of rooms and services provided.

3. To inform in writing to each Lodging about the result of the evaluation and to include recommendations for the benefit of the quality of each Lodging of Puerto Rico.

4. Services operated under a commercial agreement will be considered as part of the Guest services and will be included in the quality assessments.

(b) **Operational requirements.** - Any Lodging applying for tax benefits under Subchapter C of Chapter A of Subtitle B of the Code shall meet the following criteria:

1. To keep, for the term prescribed by law, an updated record, which will include the name and address of all Guests and will indicate the date of arrival and departure of these.
2. Coordinate with the Tourism Office to provide quality tourism training workshops to the staff of the Lodging, at least once (1) a year.

3. Send to the Market Research Division of the Tourism Office, on or before the fifteenth (15th) day of each month, information about the previous month including: total Guest records during the month, total Guests per night ("total guests"), number of Rooms rented per month, number of Rooms available per month, origin or geographical origin of the Guests, average daily rate during the month, number of employees in the month and any other statistics or information that may be required.

4. When the Tourism Office requests it, send that information that is required related to income and operational expenses, such as: income and expenses per room, income and expenses of the operation of the food and drink, administrative expenses, energy and water expenses and any other income or expense incurred by the operation of the Lodging. The information shall comply with the latest edition of the "Uniform System of Accounts for the Lodging Industry".

5. The rent of the Rooms or Units will be established on a daily rate, without limiting offers, among others, weekly or monthly.

6. Guarantee all confirmed reservations. If you do not comply with the facilities or services offered, return all money left or committed as a deposit. In case of overbooking of rooms or changes in the rate structure, the hotelier will be responsible for getting the Guest accommodation of the same category or better than the one booked in another hotel and provide the transfer.

7. Present invoices to your Guests, before they are collected. The invoices will break down the various services provided. No ambiguous or encompassing formulas will be allowed.

8. Maintain a public liability policy for the minimum amount of one million dollars ($1,000,000) that includes the Tourism Office as additional insured or for the amount established by the Tourism Office, in addition to any other insurance required by the Tourism Office that guarantees the property and safety of the Guest. The Lodging shall include a liability release "Hold Harmless Agreement" in favor of the Tourism Office.

9. To diligently pursue complaints filed by guests, visitors or those referred by the Tourism Office. Present evidence to the Tourism Office of the appropriate solution or diligence to resolve the situation and avoid other similar ones.

10. Do not discriminate based on creed, race, age, sex, origin, sexual orientation, physical or mental disability or political affiliation.

11. Avoid situations of drunkenness, lack of morals, health and hygiene and acts against coexistence, public order and tourist use, among others.
When more than ten (10) Persons are employed, submit to the Solid Waste Authority ("ADS") a recycling plan to obtain the Certificate of Compliance, to be held under Act No. 70-1992, as amended, known as the Solid Waste Reduction and Recycling Act in Puerto Rico, or any other successor or analogous law. The operator must provide evidence of certification by ADS or evidence of the submission of a recycling plan for certification. Lodgings with ten (10) or fewer jobs must implement a community collection center recycling program or similar method.

It is recommended that all Lodgings in operation comply with the following sustainability practices:

(A) Comply with the ADS Recycling Plan;
(B) Replacement of high-efficiency luminaires;
(C) Handling to avoid light pollution;
(D) Water saving through the use of water aerators and waterless equipment;
(E) Avoid light pollution towards the beach (if applicable), as well as any luminaries placed directly to light up the sky;
(F) Energy savings through the use of low energy consumption equipment ("energy star") or alternative energy (optional)
(G) Use of biodegradable products for cleaning and maintenance
(H) Reforestation and conservation practices;
(I) Support to some community, social, scientific, cultural or recreational initiative;
(J) Use of agricultural products harvested in Puerto Rico in food;
(K) Any other sustainability practice recognized by the Tourism Office;
(L) They will provide information in visible places about these sustainability measures and established programs; and
(M) It is recommended that Lodgings aspire to meet the requirements of certifications under the Sustainable Tourism Division's programs (e.g. Green Lodging Certification) and the Tourism Office's Design Guidelines for Ecotourism and Sustainable Tourism facilities.

Any new tourism project to be constructed or endorsed that is located on the coast will comply with all requirements for public access to the coast, with the removal required by the maritime land zone, coastal hazards (including climate change issues) and any related requirements, according to laws and regulations established by the Department of Natural and Environmental Resources.

It will comply with the Environmental Public Policy of the Tourism Office.
(16) No Lodging may introduce, manufacture, possess, use or operate any type of adult entertainment or gaming or lottery machines ("slot machines") including, but not limited to, those machines defined in Act No. 11-1933, as amended, known as the Gaming Machine Act, unless the machines are in a casino licensed to operate, as provided in the Gaming Act. The only machines authorized to operate in facilities endorsed by the Tourism Office will be those located in casinos duly authorized by the Tourism Office.

(c) **Services.** - Each Lodging applying for tax benefits under Subchapter C of Chapter A of Subtitle B of the Code shall be responsible for implementing and providing the following services:

1. You will hire the necessary number of employees to provide adequate services such as cleaning, reception and other services.

2. It will attend in a friendly, efficient and diligent manner the requirements or needs of each Guest, ensuring the enjoyment of their stay.

3. You will receive, store and deliver to the Guests their luggage, as well as correspondence and messages.

4. It will provide, at the time of registration ("check-in"), information about the Lodging, its location and places of tourist interest, as well as nearby airports and means of tourist and public transportation. Maintain updated information about excursions, entertainment activities.

5. It will inform the Guest about those environmental and sustainability measures or practices adopted by the Lodging, which may vary the services that are usually provided, namely: daily changes of towels or sheets. These services will be optional and will not affect the quality of the service if the Guest proves not to be interested.

6. You will have the rooms prepared and cleaned, at the time they are occupied and during the Guest's stay daily.

7. You will have, in each room, written information in English and Spanish about the services offered by the Lodging. The presentation of this information will be printed and laminated and will include services, such as: the schedule of the use of the laundry, the breakfast service, the opening of the dining room or restaurant, the housekeeper service and the reception. It will also include the list of telephones for Guest's emergencies or Guest's requirement for additional services.

8. It will provide facilities for the washing and ironing of Guest's clothes in the same establishment or by coordinating with a specialized laundry company in nearby places. It will be the responsibility of the Guest to pay for these services.
(9) You will be able to provide a private telephone in each room, preferably through a switchboard system. If there is no private telephone in the room, the Lodging will provide a common or public telephone in an area accessible to Guests.

(10) It will conduct its operations in harmony with the community where it is located and with its natural environment. It will also seek the safety, health and well-being of all persons.

(11) You will maintain a list of doctors and hospitals easily located for emergencies.

(12) Provide a first aid kit in an accessible area.

(13) It will allow free access and exit to the Guests.

(14) You will have safety boxes in the Rooms or a certain place in the Lodging.

(15) It will provide supplementary and optional services to the Guest. Management will be responsible for providing guidance on the limited services it can offer, as well as the options available and extra costs that Guest will incur to provide these services. All of this information shall be presented in writing, in English and Spanish and in detail, with a breakdown of the additional costs that are not included in the daily rate of the Room.

(d) **General physical requirements.** - Every Lodging applying for tax benefits under Subchapter C of Chapter A of Subtitle B of the Code shall have, among others, the following facilities, which shall comply with the laws and regulations established by the public agencies or instrumentalities concerned, as applicable:

(1) Public or common spaces;

(2) Reception area;

(3) Public health services for employees and Guests, according to the parameters of the Puerto Rico Department of Health;

(4) Restaurant or dining room;

(5) Labeling of the Lodging at the entrance of the outside of the property;

(6) Solid waste management and recycling facility;

(7) Sanitary sewers or septic systems;

(8) Drinking water cistern;

(9) Electric plant;

(10) Rooms;

(11) Warehouse;

(12) Administrative offices;

(13) Parking;

(14) Kitchen area;

(15) Recreational facilities;

(16) Loading and unloading area;
Laundry; and

The physical plant, facilities, furniture, security measures, equipment, fixtures, services and others will be subject to inspection and approval by the Tourism Office.

(e) **General requirements of the private areas (Rooms and dormitories)** - All Lodgings applying for tax benefits under Subchapter C of Chapter A of Subtitle B of the Code shall meet the following criteria:

1. All the rooms of the Lodging will keep proportion, in its size, with the number of occupants, according to the best architectural practices. They will provide, as a minimum, the following equipment, appliances and facilities:
   
   - (A) A single bed or a larger capacity;
   - (B) An armchair, armchair or chair;
   - (C) A table or desk;
   - (D) A closet, closet or hanger;
   - (E) A luggage rack or designated area for those purposes;
   - (F) Low energy consumption lighting;
   - (G) A window, glass door or other openings in the facade that allows the view from the room. In case of having a window, it should be equipped with curtains that prevent the entrance of light;
   - (H) Natural or artificial ventilation;
   - (I) Private sanitary facilities (except "Bed and Breakfast", Hostels and Supplementary Accommodation). The sanitary facilities of all categories of Lodgings must be adequately ventilated and equipped with at least the following equipment and services:
     
     - (i) Shower or bathtub;
     - (ii) Hand washers;
     - (iii) Toilet;
     - (iv) Hot and cold running water at all times;
     - (v) Lighting and mirror;
     - (vi) Safety bar in the bathtub or shower
     - (vii) Carpet;
     - (viii) Soap, shampoo and conditioner;
     - (ix) Sanitary paper;
     - (x) Wastebasket;
     - (xi) Electric extractor or natural ventilation;
     - (xii) Two (2) bath towels and two (2) hand towels;
     - (xiii) In the case of energy and water-saving measures, labeling is required to stimulate the saving and reduction of energy and water consumption;
Quilts and other bedding accessories, including protective covers for non-plastic pillows;

A security box is attached to the wall. If there is no safety box in the room, the Lodging shall provide one for the Guest to use;

The entrance door will be painted and identified. The doors and interior frames will be painted and well maintained.

The doors will have quality locks, security features such as: magic eye and chain or other security system approved by the Tourism Office. Each door shall have a minimum of two (2) lock options.

Ventilation shall be natural or provided by artificial methods such as: air conditioning, ceiling fans or wall fans. The system used will be in good condition for maintenance and cleaning, will avoid excessive noise and will be free of humidity odors.

The design, style and decoration provided in the furniture, equipment and accessories of the Room will respond to the general atmosphere and will be part of the "comfort" provided to the Guest; they will be functional and renewed periodically. Local art will be promoted.

The walls, ceiling, frames, windows and any molding will be in good condition. If the walls are wallpapered, they will remain in optimal physical condition, maintenance and cleaning.

The floors will be shiny or polished; they will be kept clean and well cared for.

The floor mats, as well as the area rugs, will be of good quality, well-installed and maintained.

The walls will be decorated in harmony with the style and design of the furniture.

The curtains (including the "black-out" type) will have several purposes: create an ambiance in the room, block the passage of light and visibility from the outside for greater privacy. They will operate efficiently.

The curtains, bedspreads and other accessories will harmonize with each other and with the rest of the colors, styles and designs.

The sets of sheets and pillows will be clean and coordinated in style, color and design and will be made of hypoallergenic material.

The mattresses shall be of superior quality fabric and a minimum thickness of eight (8) inches. They shall be rotated and changed periodically for optimum maintenance and to safeguard hygiene.

The lighting will be adequate and will comply with the best architectural and energy efficiency practices. It will provide adequate lighting that allows visibility from the inside of the room to the outside of the corridor. Doors
between rooms and to room balconies shall have similar systems or attachments.

(15) You will have a closet or clothing storage area, which will provide space for hanging clothes hooks.

(16) All the equipment and items in the sanitary installation will be in optimal conditions of cleaning, maintenance and will keep harmony in style and color. Efficient equipment will be used to save water consumption.

(17) The daily rates, the fee to be paid and any additional charges, the plan of eviction in case of emergency, the time of check-in and check-out, the availability of safety boxes and any information of special importance for the Guest will be visible and accessible in English and Spanish somewhere in the Room.

(18) The towels shall be of good quality and standard size at least. The fee will include the necessary towels and other personal hygiene items.

(19) The sockets of the sanitary installation of the Room will have a "GFI-Ground Fault" switch.

(20) Cables from the television, telephone and any other equipment will not be loose or exposed; covers, moldings or other attachments will be used to conceal their exposure. The use of multiple receptacles for energy-saving and USB connection is recommended.

(21) The television equipment and the "cable tv" boxes will be suitable and adapted for commercial use. They shall be placed on solid bases, adequate furniture or special shelves or boards that provide safety and prevent accidents or damage. Remote controls for the television and other equipment will be provided, at no additional charge.

(22) Construction and insulation materials shall be adequate and shall try to minimize external and adjacent noises.

(23) It shall be mandatory under applicable state and federal law for Persons with physical, emotional or mental impairments to provide facilities for Persons with disabilities. These Rooms shall be classified, provided they comply with state and federal law applicable to Persons with physical, emotional or mental impairments, including the following:

(A) **Bedroom.** –

(i) The access door shall be a minimum of thirty-six (36) inches wide and allow for the passage of a wheelchair through the room and sanitary facility doors. The lock shall be an "L" type lock.

(ii) A magic eye, bar or chain on the door at a height of approximately forty-eight (48) inches.

(iii) Storage space within reach of the disabled person.
(iv) Light switches in a forty-two (42) inch height range.
(v) Accessible bars at an easily reached height for hanging clothes in the closet.
(vi) Alarm system for people with hearing impairment.
(vii) TTY/TDD Phone Service System for the hearing impaired or visually impaired, respectively; in the alternative, auxiliary service will be available.

(B) **Sanitary facilities.** –

(i) Minimum rotation space with five (5) feet of a radius in the area of the sanitary installation.
(ii) Toilet.
(iii) Shower that allows the entry of the wheelchair and places hand shower.
(iv) Bars in the shower area.
(v) Handwashing sink with "L" type mixer that allows the entrance of the wheelchair.
(vi) Storage spaces within reach of the disabled.
(vii) Switches installed at the appropriate height and equipment aimed at people with hearing and visual impairments.
(viii) In addition, all measures required by state and federal law applicable to persons with physical, emotional or mental disabilities shall be complied with.

(f) **Physical and operational requirements of public areas.** –

(1) **Parking.** –

(A) It will be located in a strategic place, aesthetically and accessible to the facilities of the Lodging.

(B) Parking lots will be grouped and no parking lots will be allowed with direct access to each room.

(C) If it is paved, in gravel or any other material it will be an aesthetic one, there will not be any holes or irregularities that will deteriorate the cars or allow users to fall.

(D) If it is covered in grass, it will be well-trimmed and no land areas will be allowed in which water can get into it.

(E) In the case of being asphalted, the spaces will be delimited with clearly painted lines or attachments that keep harmony with the environment and the landscape.

(F) The area must remain free of trash and obstacles.

(G) Access to the tourist facility will be adequate and clearly identified.
They will have spaces prepared and identified for vehicles of Persons with Disabilities, following state and federal legislation applicable to Persons with physical, emotional or mental disabilities.

It is suggested to have spaces available and identified for efficient vehicles (hybrid/electric).

(2) **Surroundings.**

(A) Gardens will be observed, which will be well designed, clean, cared for and in harmony with the facilities.

(B) If corrals or cages with animals exist, they will be clean, free of insects and will have warning signs.

(C) The animals will be kept out of the hotel area. Communication with non-profit organizations or the nearest animal shelter is recommended.

(3) **Entrance, lobby, or reception area**

(A) They will be located in a strategic place and accessible to the Guest.

(B) The structure, the frames and the entrance doors will be of good quality, well maintained and in harmony with the place.

(C) If there are steps, ramps will be installed with the necessary handrails, as established by state and federal legislation applicable to persons with physical, emotional or mental disabilities.

(D) The glass (if applicable) will be clean and with identification to prevent accidents.

(E) It will provide comfort and security.

(F) The furniture will be uniform in style and design; its upholstery will be free of stains and dirt; its seams, fabrics or frames will be in optimal condition.

(G) The accessories and the decoration will complement the living room, they will have to be maintained adequately, it will harmonize with the atmosphere of the Lodging and its maintenance and cleaning will be optimal.

(H) Floors and carpets shall be kept clean; they shall be of such quality as to permit continuous passage.

(I) The registration desk will be organized and clean; it will include printed and framed signage indicating hours of operation, service and operational policies. No paper or cardboard in manuscript, clippings or similar will be allowed.

(J) Additional facilities to provide services, such as: transportation areas, access to safety boxes and luggage areas will be identified and well maintained.
(K) The general illumination of the Lodging will fulfill the purposes of security, reading, rest and aesthetics. The illumination will be of low energy consumption and they will be covered, unless by their style, quality and design they will be part of a set.

(4) **Public sanitary facilities.** –

(A) The public sanitary facilities will be duly identified. Labeling on paper or cardboard will not be accepted.

(B) It will have a sanitary space for each sex (man and woman). In the event that the design of the Lodging does not provide for this purpose, the Lodging shall have at least one (1) sanitary facility that complies with state and federal law applicable to Persons with physical, emotional or mental disabilities.

(C) It will comply for use by Persons with Disabilities under state and federal law applicable to Persons with physical, emotional or mental disabilities.

(D) The team will keep harmony in its style and color. Hygienic measures will be required such as: liquid soap equipment, air extractor, steam or paper system for hand drying. If there is more than one toilet, each one of them will be separated into independent cubicles with doors. The use of water-saving equipment is required.

(E) The mirrors will be framed unless they are part of a specific design.

(F) The equipment, walls and floors (the whole installation) will be in optimal conditions of cleaning, maintenance and salubrity.

(G) Public sanitation facilities will be free of odors and moisture stains and will have equipment such as biodegradable automatic sprinklers that control or minimize insects and odor buildup.

(5) **Elevators (if applicable).** –

(A) An elevator is required in those structures with more than three (3) levels of elevation required by the applicable regulations of the OGPe or the autonomous municipality.

(B) The exterior doors, as well as the interior of the elevators will be in optimal condition.

(C) The interior will have adequate lighting and ventilation.

(D) The interior floor or carpet will be in excellent condition, free of odors and stains.

(E) They will comply with the requirements of the Department of Labor and Human Resources of Puerto Rico, state and federal legislation applicable to persons with physical, emotional or mental disabilities, and will be licensed accordingly.
(F) The elevators will have adequate ventilation and maintain a comfortable temperature inside the cabin.
(G) They must keep their inspection and certifications up to date.

(6) **Stairs or escape exits.** –

(A) They will be labeled, lit, clean, painted, with handrails and in optimal conditions.
(B) They will be kept free of obstructions and will not be used as storage places.
(C) Stairway doors will not provide access from the stairs to each floor.
(D) The main exit and exhaust will be identified.

(7) **Corridors.** –

(A) The walls should be well painted. If you have wallpaper, it will be free of stains, tears and will be well attached to the wall.
(B) The floors or carpets will be kept clean and free of stains.
(C) If ceiling lights are available, they should be painted and complete (if acoustic) and the surroundings of the air conditioner grilles should be checked for cleanliness, without mold or leaks.
(D) The labeling will be minimal, approving those, such as: those that identify escape exits, emergency escape plans, those that identify the rooms and other necessities.
(E) The lighting will be natural or artificially adequate, providing security, integrated to the design and style of the Lodging.

(g) **Physical and operational requirements of the entertainment areas** –

(1) **Pool and beach area (if applicable).** –

(A) In the case that the Lodging locates in front of the beach, the administration of the Lodging will guard and contribute to the maintenance, conservation and cleaning of this one. It will be promoted that the Lodgings adopt the beaches.
(B) Good sustainability practices will be applied to avoid and mitigate the risks of coastal erosion. The Lodging shall have the best practices of maintenance, conservation and education in the use of the beach.
(C) Every Lodging that locates and benefits from the proximity of the beach or the sea, must provide information to visitors about the maritime and climatic conditions and any Bulletin of the National Service of Meteorology. Weather warnings should be visible to all Guests, in English and Spanish.
(D) The pools will have lifeguard rings that must be visible and available at all times in the pool area and will be maintained in optimal clean,
maintenance and safety conditions, as approved by the Puerto Rico Department of Health. Their depths will be legibly marked.

(E) All safety rules, as well as warnings and the schedule of the lifeguard personnel, will be written in a visible area in the English and Spanish languages.

(F) The furniture will be in tune with the environment and will be kept in good condition for maintenance and painting.

(G) Beach chairs and towels will be provided for guests.

(H) The hotel installation will require shower and sanitary facilities, which will comply with the same requirements demanded by the public sanitary facilities of this regulation.

(I) It will comply with state and federal legislation applicable to persons with physical, emotional or mental disabilities, through mechanisms that guarantee access to the pool for Persons with disabilities.

(2) **Courts (if applicable).** –

(A) They will be easily accessible and in optimal condition for maintenance, according to their purpose.

(B) They will have signage in English and Spanish, indicating the schedule, the reservation and cancellation policy, as well as any other particular regulation of use.

(C) They will have the necessary equipment and accessories for the exclusive use of authorized users. These can be rented, but the additional cost must be specified in advance.

(D) They will have lighting to cover the needs of use during part of the night.

(E) For the use of the courts, safe spaces will be provided to store belongings, as well as having sanitary facilities nearby.

(3) **Casino (if applicable).** –

(A) The entire game room will be in optimal conditions of maintenance, cleanliness and safety.

(B) The furniture, curtains, carpet and game tables will be made of excellent quality material.

(C) It will have adequate lighting.

(D) The windows and counters in the checkout area and other services will always be clean.

(E) They will comply with the provisions of the Gaming Law and the regulations issued under its protection by the Tourism Office.

(F) It will have a fire extinguisher duly certified by the Fire Department of Puerto Rico.
(4) **Gym (if applicable).** –

(A) The exercise room or gym will be in optimal conditions of maintenance, cleanliness and safety.

(B) All equipment will be well maintained and operated properly. If no staff is available to guide the Guest, basic signage and equipment use literature in English and Spanish will be provided.

(C) Guest will be warned by signage at the entrance and inside the room with the warning "Use at your own risk" in English and Spanish.

(D) The room will have at least one wall clock.

(E) Water will be provided by fountain or bottled water, for the exclusive use of the users of the room.

(F) It will have a fire extinguisher duly certified by the Fire Department of Puerto Rico.

(5) **Spa" or wellness room (if applicable) –**

(A) The rooms must have specialized and certified personnel to handle the operation and the available treatments.

(B) Cleanliness and hygiene are essential and care will be taken to keep the salon, its equipment and products in optimal condition.

(C) Adequate labeling and written materials (brochures or handouts) should be available in English and Spanish, with a detailed description of each treatment, including the products, steps, approximate duration, type of comfort expected, and cost of services.

(D) All equipment and products must comply with the requirements of the Puerto Rico Department of Health or applicable federal agencies.

(E) It will have a fire extinguisher duly certified by the Fire Department of Puerto Rico.

(F) It will have sanitary or other facilities that will allow the Guests the privacy to change their clothes.

(h) **Physical and operational requirements of gastronomic and beverage facilities.** –

(1) **Restaurants, activity room and dining rooms.** –

(A) The restaurant or dining room of the Lodging will have a kitchen and must offer food service to the Guest at least a continental breakfast, with the option of lunch and dinner.

(B) For those cases in which the Lodging has a dining room, restaurant or activity room, it must comply with the following:

(i) It will place, in a visible area or at the entrance of the dining room, printed and framed signage that informs about the services and operation schedules.
(ii) The presentation and table service will be in tune with the type of restaurant. If the hotel offers limited services and uses buffet service or room service, the cutlery and utensils can be made of good quality plastic (preferably recyclable plastic or biodegradable), presented properly and hygienically. Full-service restaurants will have good quality uniform tableware and glassware, without stains or breakage and the presentation of the service will be excellent.

(iii) The glassware will be placed attractively, without sacrificing its cleanliness or the maintenance of hygienic conditions. The same conditions will be maintained even when the glassware is not in view of the customer.

(iv) The furniture and decoration, including the use of trays, baskets, cloth napkins, among others, will be in accordance with each other and should be considered in good taste; they will be kept in good condition for cleaning and maintenance, just like the rest of the installation.

(v) It must have accessible areas to persons under state and federal law applicable to persons with physical, emotional or mental impairments.

(vi) All food and beverage facilities will comply with the requirements of the Puerto Rico Department of Health.

(vii) At least one (1) covered bin shall be used for garbage disposal.

(viii) You must comply with the recycling and organic waste operation as provided in Law No. 411-2000, as amended.

(ix) You should establish a plan for handling used oil.

(x) The lighting will be adequate.

(xi) It will promote the use of locally produced food.

(2) **Kitchen area.**

(A) The walls, floors and ceilings will be made of easy to clean material and will be kept clean at all times.

(B) Food and ingredients in perfect condition and following the standards established by the Puerto Rico Department of Health will be used in the preparation of the meals.

(C) The floors will have rubber mats in the work areas and the walls will have a smooth surface without cracks; materials that require the use of glue to stay attached will be avoided.

(D) The ceiling will be protected from the passage of vermin.
(E) The windows will be protected with wire mesh, as will the doors. An exception may be the dividing door between the kitchen and the living room.

(F) Extractors will be placed on the stoves, fryers or any area or equipment that generates heat. These will be kept clean and will require ongoing maintenance.

(G) It is recommended that all electrical equipment be certified as low energy consumption or "Energy Star" for energy savings. In addition, it is recommended to use equipment that maximizes water savings such as those certified by 'Water Sense'.

(H) Products must not be stored in open containers in the refrigerators. The containers will be made of appropriate material that complies with the requirements of the Puerto Rico Health Department.

(I) Dairy and vegetable products should be kept in refrigerators separate from meat or seafood to avoid contamination from odors or flavors.

(J) No products will be allowed on the floors of freezers and coolers.

(K) All equipment, surfaces and floors will be kept in optimal clean and odorless condition.

(L) The cabinets, in which the cutlery is stored, will be hermetically sealed.

(M) The placement of the dishes will not allow contamination by the passage of vermin. Cutlery will be properly separated and covered.

(N) Plastic bags will be placed in the interior chests and, if possible, they will be kept covered.

(O) The lighting will be adequate, covered and secure. Ventilation will also be adequate.

(P) The equipment shall be properly connected, with no loose or exposed wires.

(Q) Oil traps will be available.

(R) It will have a fire extinguisher duly certified by the Fire Department of Puerto Rico.

3 Bars (if applicable).

(A) The furniture, decoration and the rest of the area will be kept in good condition, clean and maintained, like the rest of the facility.

(B) It will be accessible to people with physical disabilities.

(C) The glassware will be placed attractively, without sacrificing its cleanliness or the maintenance of hygienic conditions. The same conditions will be maintained even when the glassware is not in view of the customer.

(D) The floor used will be kept in optimal conditions.
(E) They shall have at least two (2) sinks or those required by the Puerto Rico Department of Health for the use of the bartender.

(F) The coolers will be kept in excellent operating and cleaning conditions. The products will be stored in glass containers, stainless steel containers and any other material approved by the Puerto Rico Department of Health.

(G) For the disposal of the garbage, one (1) bin with a cover will be placed and will have a recycling container.

(H) The lighting will be adequate.

(i) Maintenance and cleaning requirements. - Any Lodging applying for tax benefits under Subchapter C of Chapter A of Subtitle B of the Code shall meet the following criteria:

1. **Warehouse area.** –
   - (A) It will be clean and organized;
   - (B) Food will be kept in rodent and vermin proof spaces;
   - (C) Storage slats or shelves shall be at least one (1) foot above the floor level; and
   - (D) Cleaning products and insecticides will be located in separate places from food and beverages.

2. **Waste/residue area.** - A specific area will be provided for trash cans and recyclable material. The area will not be visible to the Guest, except in those public areas where Guest can easily dispose of them and they are well covered and labeled.

3. **Housekeeping and laundry service area** –
   - (A) It will be located in an area out of sight of the Guest;
   - (B) It shall have adequate ventilation and the grilles or ducts leading out of it shall be clean and unobstructed;
   - (C) Storage slats or shelves shall be at least one (1) foot from the floor level;
   - (D) Equipment such as dryers, washers, ironers and folders will be in good working and maintenance condition. We suggest the use of energy and water-saving equipment such as "Energy Star" and 'Water Sense";
   - (E) Electrical box connections and wiring will provide for the protection and safety of employees and any other Person present;
   - (F) The method of storing bedding, as well as towels and other accessories, is well organized and avoids contact with vermin and rodents; and
   - (G) You can hire this service externally.

4. **Maintenance.** –
The physical plant and the ornament will be in perfect condition for the optimal operation of the Lodging and the enjoyment of the Guest;

(B) Any risk to the health or safety of the employee or Guest shall be avoided, including: lack of ventilation; disorganization; excessive water on floors; loose wiring; etc.;

(C) The use of maintenance products that are concentrated and biodegradable is suggested; and

(D) Whenever possible, items and machinery for maintenance and cleaning will be kept out of sight of the Guest.

(j) **Prohibitions.** - The use of entertainment machines is not allowed in the Lodging, nor in its land, that is not approved by the Gaming Division of the Tourism Office. No signs, fences, canvases, digital screens, billboards or similar advertising are allowed. The use of art or digital screens will only be permitted in special cases that are an integral part of the design of the Lodging and that are not of an advertising nature, nor are messages that are offensive or inappropriate.

**Section 2051.01(b)-8. - Requirements for a Bed and Breakfast Program.**

(a) **General requirement.** - The Lodging operating under the Bed and Breakfast or B&B program of the Tourism Office shall comply with the requirements outlined in Article 2051.01(b)-7 of these Regulations.

(b) **Registration.** - The "B&B" will be registered at the Tourism Office and will record its location, accommodation capacity, the name of the resident owner (and manager if applicable) and information about any services it provides to its Guests. It may be certified under the Tourism Office's Sustainable Tourism Facilities Program or by a locally or internationally recognized organization that specializes in the operation of "B&B". It must have the permission of the use of the Lodging or residential and the required endorsements.

(c) **Physical requirements.** - The Lodging that operates under the Bed and Breakfast Program of the Tourism Office must meet the following criteria:

1. **Location.** - The property may be located in an urban or rural area and must be located around tourist attractions of natural, cultural, entertainment, historical, gastronomic, landscape or other potential tourist values. Each property will be evaluated and approved to determine if they can operate under this concept.

2. **Room.** - It will have a minimum of three (3) Rooms and a maximum of six (6) Rooms available exclusively for Guests and:

   (A) The rooms available to Guests for tourist rentals will be separate and additional to those used by the residents of the property;

   (B) They will be oriented towards pleasant spaces or views;
To achieve privacy for both Guest and resident, the entrances to the Rooms available to Guest will have independent access and their access will not interfere with the resident's private spaces on the property. Proper organization and design of the property spaces shall be provided for this purpose.

Rooms are allowed to be located in separate structures; however, they must be located within or adjacent to the residence.

Rooms with a kitchen will include quality dishes, utensils and equipment and uniformity of style. However, the owner will always offer the Guest a complete breakfast as part of the daily rate.

The rooms will be proportioned between their size and the number of occupants, according to the best architectural practices.

They will also comply with the ADA for Persons with mental impairments for all housing facilities.

Each Housing Unit will have any of the following alternatives:

(i) A private sanitary service for each room, or in its absence;
(ii) You will be able to count on a shared sanitary service for every two (2) rooms.

The rooms will be duly identified and will not be accessible from the street unless their architectural design allows it and there are adequate physical and operational security measures.

Public areas. - Common spaces or living areas will be provided exclusively for Guests, which, among other things, will serve as a place for Guests to integrate with the host resident. The spaces shall be equipped with tables and chairs or other amenities and may be used to provide breakfast for Guests. All necessary literature about the Lodging, its services, facilities, rules and surrounding tourist attractions and events shall be located in the areas.

Storage area. - If the property does not have a storage area, it can be replaced with closets or spaces that serve such purposes.

Loading and unloading area. - The accommodation does not require a loading and unloading area. This process can be carried out through the areas available on the property so that it does not affect the tourist operation or the neighborhood.

Kitchen. - The kitchen used by the resident may be used to prepare food for the Guest. Because of the domestic nature and small scale of a B&B operation, the kitchen will be considered for residential use and will not have to meet the requirements or certifications of a typical commercial kitchen in a traditional B&B. Additional kitchen area will be available.
Reception. - The lobby, office and reception required for a traditional Lodging may be replaced by a well presented and organized common area that serves the purpose for the most effective reception of Guests and the check-in and check-out process.

Parking. - No formal labeled parking space is required. The property must have functional parking spaces within the property. If the property does not have sufficient parking spaces, the Guest shall be directed to the services of nearby parking spaces. The owner is responsible for identifying and coordinating parking service for the benefit of Guest. Parking or traffic problems affecting neighbors in the community shall be avoided.

Labeling. - In order to maintain the residential character of the communities, only signs that comply with the provisions for home use will be allowed, as approved by the Tourism Office. The installation of advertisements or commercial propaganda will not be allowed unless it is located in a commercial area.

Aesthetics. - The property will make the physical, architectural, aesthetic and ornamental improvements necessary to create a harmonious environment of the property.

Operational requirements. - The Lodging operating under the Tourism Office's Bed and Breakfast Program must meet the following criteria:

(1) Breakfast. - The "B&B" requires offering at least one continental breakfast, always included in the daily rate. Lunch and dinner can be provided at an additional cost to those Guests who request it.

(2) Residence. - The owner of the residence, his family, or in his absence, his representatives or the person in charge of the property, will reside permanently and spend the night in the property, will act as operators of the accommodation and will provide the service to the Guest directly. Any change of owner or resident must be reported to the Tourism Office within ten (10) calendar days. The promotional endorsement will be given to the operator/resident.

(3) Documentation. - The following documents are required and available:

(A) Permission to use a Lodging or residential (Deed of Sale);
(B) Public Liability Insurance;
(C) Municipal Patent;
(D) Fire Department Certification;
(E) Licensed by the Department of Health;
(F) Official Identification;
(G) Annual Puerto Rico Police Certificate of Good Conduct for all Persons over eighteen (18) years of age residing in the property; and
Any other documentation requested by the Tourism Office.

(i) In the case of the granting of a permit for the use of a Lodging, due to the residential nature of domestic facilities, the agencies concerned are required that concerning the permit process, inspections and certifications the components of the "B&B" are not considered as a traditional commercial Lodging operation, but as residential domestic facilities for related matters, such as one for electrical power, kitchen, fire prevention systems, among other facilities and equipment.

(ii) In the case of a residential use permit, the approval of OGPe is not required.

(iii) If the resident/operator of the accommodation is neither the owner nor a tenant, he or she must show evidence of written authorization stating that the owner of the property authorizes the resident to operate a "B&B".

(4) **Standards.** - Internal rules regarding the use of facilities and equipment, as well as the use of pets, smoking restrictions, noise, mealtimes and restricted areas of the property will be provided in writing in English and Spanish. The resident may report issues related to the resident's habits and activities for the Guest to experience interaction with the culture and idiosyncrasies of a local community. The activities of the "B&B" will be limited and will take into consideration the tranquility of the residents of the property and the community.

(5) **Concessions and other uses.** - Small service concessions or retail or rental apartments will be permitted on the property, provided that

(A) Be authorized by the OGPe or autonomous municipality;

(B) Have independent access;

(C) Do not confuse with guest areas;

(D) The activity complements positively the tourist service to the Guest, who do not affect the operation of the Lodging, nor affects the residents of the sector;

(E) In case the B&B is located in an urban center, commercial or residential uses will be allowed that have independent access to the spaces used by the Guests of the B&B.

(6) You may not operate within the property:

(A) Games of chance;

(B) Public bars; or

(C) High-scale or high-traffic commerce.
Article 2051.01(b)-9. - Guesthouse Requirements under the Guesthouse Program.

(a) General requirement. - The Lodging operating under the Tourism Office Guest House program shall comply with the requirements outlined in Article 2051.01(b)-7 of these Regulations.

(b) Registration. - Guesthouses will be registered at the Tourism Office and will record their location, accommodation capacity, the name of the owners and managers, information on any service they provide to their Guests and any policies directed at the Guests.

(c) Physical requirements. - The Lodging operating under the Tourism Office Guest House Program must meet the following criteria:

1. Have a minimum of seven (7) rooms up to a maximum of twenty-five (25) rooms available to the Tourism;

2. Having the rooms with a kitchen will include quality dishes, utensils and equipment and uniformity of style. They will also comply with the regulations set forth by the Health Department;

3. The rooms will be duly identified and will not be accessible from the street unless their architectural design allows it and there are adequate physical and operational security measures;

4. Have a dining area for the exclusive use of the Guests where at least breakfast will be provided. It may offer lunch or dinner service to those Guests who request it. The cost of foodservice may or may not be included in the daily rate. The dining room will have enough space to comfortably serve meals to a reasonable number of Guests. The dining room will not have access to the street to avoid being understood as a public one.

(d) Operational requirements. - The Lodging operating under the Tourism Office Guest House Program must meet the following criteria:

1. It will provide administrative staff for twenty-four (24) hours. If the management staff is not available at certain times during the night, the Lodging hall notify the Guest at the front desk in advance;

2. It will have a private bathroom for room and maid service;

3. In areas where the Tourism Office, the OGPe or autonomous municipalities allow it and depending on the need and gastronomic offer of the sector, the Tourism Office may authorize the establishment of a restaurant for the general public, as long as it is related and complementary to the purpose of the Lodging to maintain a quiet environment, always being the component of tourist accommodation the main operation and not affecting the community where it is located.
The sale of alcoholic beverages may be provided within the restaurant, exclusively as part of its complimentary offer. The alcoholic beverage stipend will always be associated with a food sale operation. An independent public bar (or similar) will not be allowed to operate.

They may not operate gaming rooms, equipment or similar games.

Section 2051.01(b)-10. - Requirements for a Lodging under the Puerto Rican Parador Program.

(a) General requirement. - The Lodging operating under the Puerto Rican Parador Program of the Tourism Office shall comply with the requirements established in Article 2051.01(b)-7 of these Regulations.

(b) Admission to the program. - The Lodging that wishes to participate in the Parador Program must meet the following requirements:

(1) Excellence in service and quality. - Cordial, careful, personalized, efficient and professional service, as well as the quality of the facilities and optimum maintenance conditions, will be essential requirements for receiving the benefits of the Parador Program and for actively participating in it once admitted.

(2) Location. - The Lodging shall:

(A) To be located in an area outside the metropolitan area, which has, as an integral part of its geographical location or within the vicinity, a series of natural or artificial attractions or both, which are currently developed or have a tourist potential, such as: beaches, lakes, bays, historical sites and places of great natural beauty;

(B) To be in the vicinity of a tourist destination that the Tourism Office is interested in developing.

(3) Architecture and design. - The architecture should be in tune with the area where it is located and its design will be adapted to the natural environment of the place. In those cases where an existing structure has been used, the architectural or historical value that the original structure may have will be respected as much as possible. If the Lodging is located in a tourist or historical area, the Planning Board, under the provisions of Law No. 213-1942, as amended, and Law No. 8-1972, as amended, shall determine the characteristics of the structure to be erected, reconstructed, enlarged, altered, restored, demolished or in any way developed within the aforementioned areas. It will also take into consideration the participation of the Institute of Puerto Rican Culture provided in Law No. 89-1955, as amended.

(4) Entertainment activity. - The Lodging will offer its Guests a variety of activities and entertainment typical of the area where it is located and will
take full advantage of the amenities offered by its environment, supplementing them with those of other Paradores, as approved and coordinated by the Tourism Office. The Lodging will have available for distribution informative material about the activities and entertainment mentioned above.

(5) **Family atmosphere.** - The Lodging will create a welcoming and cordial atmosphere that attracts the visit and the stay of families in search of hospitality and coexistence according to the idiosyncrasy, uses, customs and the Puerto Rican tradition. Casinos and those games of chance are prohibited according to the Gaming Law. In addition, any gaming machine or entertainment that is in contravention of the Gaming Law is prohibited.

(6) **Installation.** - The Lodging and its accommodation facilities will be in line with the standards established by the Tourism Office.

(7) **Room.** - The Lodging will have a minimum of seven (7) Rooms up to a maximum of seventy-five (75) Rooms. The sizes of the Lodging’s dormitory rooms shall be in proportion to the number of occupants according to the minimum requirements established by the Tourism Office and shall provide, as a minimum, the following equipment, utensils and facilities.

(A) One (1) single bed or larger with one (1) blanket, two (2) sheets and one (1) quilt and mattress of the quality required by the Tourism Office;

(B) One (1) or two (2) night tables, separated or incorporated into the back of the bed;

(C) One (1) armchair or chair and one (1) table or desk

(D) One (1) drawer, built-in or not, one (1) board;

(E) One (1) closet with enough hangers of the same type

(i) One (1) suitcase holder;

(ii) One (1) or two (2) area rugs unless the room floor is fully carpeted;

(iii) General lighting that conforms to best practices or architectural standards and includes fluorescent bulbs. It is recommended that all electrical equipment be "Energy Star" certified.

(iv) Table or reading lamps that can be operated by the Guest from the bed;

(v) At least one window, glass door (e.g. "sliding door") that allows light from the outside to enter and be visible from the room without compromising safety and that is equipped with blinds or curtains that prevent light from entering when the guest wishes (e.g. "black-out-lining");
(vi) Natural or artificial ventilation in proportion to the size of the room.

(vii) Cooler with two (2) covered glasses or with covers when plastic or "stand cap" when glass;

(viii) Private sanitary facilities, measuring seven (7) feet long by five (5) feet wide;

(ix) The sanitary facilities will be adequately ventilated and equipped, at least, with the equipment and service of shower, washbasin, toilet, soap, disposable cups, covered with plastic covers, two (2) bath towels and bath mat (towel type) for when leaving the bathtub or shower of the size and quality required by the Tourism Office and in case of "deluxe" rooms will have hair soap and conditioner.

(9) **Reception.** - The owner, operator or the personnel assigned by the management of the Parador, will attend to the operations of the Lodging during the twenty-four (24) hours of the day.

(10) **Security.** - The Lodging shall have security twenty-four (24) hours a day.

(11) **Policy.** - Every Lodging shall have in force public liability insurance with a combined limit of not less than five hundred thousand dollars ($500,000), issued by a Person endorsed by the Commissioner of Insurance. The policy shall include the Tourism Office as the insured party and at the same time contain an endorsement of relief of responsibility in favor of the latter. The policy shall contain a clause stipulating that, in case of cancellation, the Insurance Company shall notify the Tourism Office of this eventuality by certified mail with acknowledgment of receipt ten (10) days before the date of the projected cancellation. The Lodging commits, in addition, to maintain in force all the policies that are required by law, such as those of the Fund of Insurance of the State and other analogous ones.

(12) **Legal requirement.** - All Lodgings shall comply with the laws and regulations that are individually applied to them.

(b) **Application process.** - The Lodging that wishes to belong to the Puerto Rican Parador Program must comply with the provisions of Article 6 of Regulation No. 7886 of the Puerto Rico Tourism Company.

(c) **Evaluation of the application.** - The evaluation of any hotel that wishes to belong to the Puerto Rican Parador Program will be done following the provisions of Article 7 of Regulation No. 7886 of the Puerto Rico Tourism Company.

(d) **Requirements.** - The Lodging that wishes to participate in the Puerto Rican Parador Program must meet the following requirements:
Identify the hotel with the corresponding official sign or label, with the sub-name "Parador of Puerto Rico" and the emblem of the Parador Program. The name and emblem of the Puerto Rican Parador Program may only be used by those establishments certified by the Tourism Office as being admitted to the Parador Program. The design of the sign to be used individually will be subject to the approval of the Tourism Office and will comply with all relevant regulations. The Tourism Office will provide the Lodging with the first distinctive sign of the Parador Program. If necessary, its replacement will be the responsibility of the owner at his or her expense.

Maintain for a period of not less than one (1) year a record, which shall contain the name, residential address, date of arrival and date of departure of its Guests and fee charged to them. The registration will be available at all times for review by an authorized representative of the Tourism Office.

Present invoices to your Guests to be paid by them. Invoices must specify the various services provided to the Guests and the respective amount charged to each of them. It is not allowed to include items with ambiguous formulas or included in the invoices.

Present to the Tourism Office with all required statistics including the number of Guests (with their origin or provenance and average stay), occupancy rate and any other relevant information required by the Tourism Office.

Guarantee all confirmed reservations with a room of equal or better price.

The Operator must attend no less than eighty percent (80%) of the meetings and activities cited by the Tourism Office. In the case of meritorious absence, it will be the obligation of the Operator to send an alternate representative or authorized person to represent them.

Notify the change in Operator of the Parador, once admitted to the program.

When the Parador offers food to its Guests, offer at least one dish based on Puerto Rican cuisine at each meal. The menu will be able to be to the letter or of the fixed type for the day or any one of the three daily meals. This menu will be written in English and Spanish, without limiting the Parador to write it in other additional languages.

A Parador that has a dining room or restaurant and has duly authorized bar facilities will not be required to maintain visual or physical separation between the dining room and bar. Any Parador that is interested in this may apply for their restaurant to be included in the Tourism Office's Program of Gastronomic Inns. The admission of a hotel with a restaurant to the Parador Program does not mean that the restaurant will automatically be included in the Program of Gastronomic Inns.
Every Parador will be responsible for providing up-to-date information about excursions in Puerto Rico and places of tourist interest, as well as informative material about the entertainment activities available at its facilities or nearby.

The Parador will offer the Guest the service of washing and ironing clothes in the same establishment or will offer the service through a specialized company ("laundry") or will provide information about nearby places to obtain the services. The cost of the services will be paid by the Guest.

Regardless of its location or classification, every Parador will take the necessary steps to save energy (including use of fluorescent lighting and recommendation for use of "Energy Star" and alternative energy equipment), save water (including use of surroundings), recycle, reforest and conserve and any other practices to protect natural beauty and resources and not pollute the environment. All Lodgings that have direct access to the beach must cooperate in the maintenance and cleaning of the beach.

The Parador will have a list of doctors and hospitals that can be reached in case of emergency.

The Parador is obliged to maintain the quality standards of services implemented by the Tourism Office and any other applicable standards that benefit the Parador Program as established by the DDEC Secretary.

(a) Benefits of the program. - Every Lodging admitted to the Puerto Rican Parador Program shall obtain, in addition to the benefits of Chapter 5 of Subtitle B and Chapter 1 of Subtitle C of the Code and these Regulations, among others, the following benefits, as applicable:

1. Marketing and promotion (collective and individual);
2. Advice and general training;
3. Guidance concerning the purchase of supplies and services;
4. Training service;
5. Technical assistance, including advice on decoration, architecture and landscaping;
6. Serve as a facilitator concerning services offered by other government agencies and corporations or individuals for the benefit of Paradores;

(b) Exclusion from the program. - Non-compliance with any of the applicable provisions of these Regulations shall be sufficient reason for the DDEC Secretary, through the Director of the Tourism Office, to suspend or exclude the Lodging from the program after an informal hearing with the Secretary, the Director of the Tourism Office, or their authorized representative. A Lodging that is not satisfied with the action taken may, within ten (10) days of being notified of the determination, file a reconsideration.
(c) **Administrative fine.** - The DDEC, through the Tourism Office, may establish and impose administrative fines, not less than one thousand dollars ($1,000) nor more than five thousand dollars ($5,000), for violation of the applicable law or of these Regulations. The inspectors or representatives authorized by the DDEC are empowered to determine which act or omission constitutes a violation of these Regulations and may issue a ticket or fine, a citation or both. The ticket shall indicate the fine, the infraction committed and the action taken, as well as the action required to cure any deficiency or violation of these Regulations. Nothing herein shall prevent the DDEC from expelling a Parador from the program if the Parador does not comply with the requirements outlined herein and applicable laws.

(d) **Separation of the Puerto Rican Parador Program.** - Any Puerto Rican Parador that voluntarily resigns or is separated by the Tourism Office from the Parador Program may renegotiate its Decree under the Code if it complies with the provisions of Section 6020.03 of the Code and any other applicable provisions.

**Article 2051.01(b)-11. - Requirements for a Lodging under the Tourist Village Program.**

(a) Means any building or scattered building that will contain from seven (7) Units to fifty (50) Accommodation Units, each with at least one Bedroom, sanitary facilities and kitchen. In addition, it shall have a kitchen, living room, sanitary facilities and at least one bedroom.

(b) **General requirement.** - The Lodging that operates under the program of Tourist Villas of the Tourism Office will fulfill the requirements established in Article 2051.01(b)-7 of these Regulations.

(c) **Physical requirements.** - The Lodging that operates under the Program of a Tourist Village of the Tourism Office will have to fulfill the following criteria:

1) The land that will be developed for the establishment of a Tourist Village will contain the structures, complementary facilities and areas necessary for better operation and service. No other structure or business of nature use or purpose that is not complementary to the Tourism Project will be located on the land.

2) Parking will be in a common and centralized area for all the accommodation units. If it has been designed based on groups of Units separated from each other ("clusters"). Parking may be permitted in several common areas for this purpose.

3) Each accommodation unit will be independent of one another and will have bedrooms, bathroom, living room and fully equipped kitchen, among other facilities.

4) Private cooking facilities shall meet the requirements of the Department of Health and those not incompatible with those outlined in Article 2054.18-1 of these Regulations. The kitchen of each Unit shall be fully equipped, including
microwave oven, refrigerator, stove, cooking utensils, coordinated dishes, cutlery and glasses. All will be in optimal conditions.

(5) The Lodging will have a "convenience store", in which food and essential items will be provided for sale to the Guests.

(6) A separate structure or "convenience store" will provide complementary services for Guests, such as washing and drying machines at a reasonable cost, sale of groceries and beverages, among others. If these facilities are not available, information will be provided about nearby locations where Guest may obtain these services.

(7) It will have a reception area or administration office, a public sanitary facility and a warehouse for maintenance items for the Tourist Village. The service units may be installed in a single structure of suitable design.

(8) The Lodging will be able to have other facilities, such as restaurants, bars and other comforts ("amenities") approved by the Tourism Office.

(9) In each structure or building, there will be common and unifying elements of architecture, design and others that provide uniformity to the Tourism Project. The landscape architecture of the place will help to unify the installation, give it character and ensure the greatest enjoyment of the guests.

(d) **Operational requirements.** - The Lodging that operates under the Tourist Village Program of the Tourism Office must comply with the following criteria:

(1) All Units must be managed by the same Hosting Operator.

(2) Each Lodging Unit will be available for daily rental to Guests in transit; they will not function as residential units.

(3) The security service will be provided at the reception, which will cover the hours of operational closure, will have appropriate signage detailing the hours of receipt of visitors, the times of "check-in" and "check-out" and will have a phone for emergencies and needs.

(4) Any change of owner or operator will be notified, in writing, to the Tourism Office on or before thirty (30) days from the change.

(5) You must provide services to the rooms that include bedding, pillows, friezes, sheets and pillowcases, bath and beach towels.

(6) We will inform you about the service of custody of values using a safety box in the reception, in the Tourist Village or another predetermined place of the property.
Section 2051.01(b)-12. - Requirements for a Lodging under the Hostelling Program.

(a) Means an accommodation that provides the Guest with a bed in a shared or private room, in compliance with safety and hygiene standards. The Hostel allows travelers from different places and cultures to share, in common spaces, in an atmosphere of fraternization, to know the visited destination; besides having a minimum of twelve (12) beds and having a maximum of twenty-five (25) Rooms.

(b) General requirement. - The Hostel operating under the Tourism Office program shall comply with the requirements outlined in Article 2051.01(b)-7 of these Regulations.

(c) Physical requirements. - The Hostel that operates under the Tourism Office Program must meet the following criteria:

1. **Rooms.**
   - (A) It will have a minimum of twelve (12) beds for Guest accommodation.
   - (B) You can have shared and private rooms.
   - (C) In the shared rooms, the beds can be bunk beds or independent beds and the private rooms can have a refrigerator;
   - (D) The size of the rooms will be in proportion to the maximum number of beds and occupants.
   - (E) Rooms for men, women and mixed rooms will be established;
   - (F) The rooms will be properly identified and will not have direct access from the street.

2. **Reception.** - It will have a reception area with a registration area.

3. **Health service.** - You will have at least:
   - (A) One toilet for every six (6) beds;
   - (B) One sink for every six (6) beds; and
   - (C) One shower per six (6) beds for women, equally one shower per six (6) beds for men.

4. **Common areas.** - The Hostel is characterized by the use of common areas to share among the Guests. The Hostel will have the following common areas:
   - (A) Living room;
   - (B) Kitchen:
     - (i) It will have a communal kitchen;
     - (ii) It will have the necessary number of kitchens to attend the number of guests of the Hostel;
     - (iii) The kitchen will have dishes, cutlery, utensils and other equipment that will allow the Guest to prepare his meals;
     - (iv) Among the kitchen equipment, it should have: stove, regular size refrigerator, coffee maker and microwave, among other necessary equipment;
     - (v) It will have a refrigerator for every 20 shared beds;
(vi) You will not have access to the street;

(C) **Dining room.** - It will have dining areas with enough capacity to attend the total number of guests at the Hostel.

(C) The kitchen and dining room will be for the exclusive use of the Guests, owners or Operator.

(D) **Lockers.** - The Hostel will have lockers with keys in a common area or in the Rooms for Guests staying in shared rooms.

(E) **Other common areas.** - The Hostel may have other common areas such as activity or game rooms, library, computer area with internet access, laundry area, among others.

(F) The use of a public bar or entertainment game machines inside the Hostel is prohibited.

(G) Depending on the land use qualification, commercial concessions will be allowed, as long as it has the approval of OGPe or the autonomous municipality, has independent access to the area of the Hostel, which is complementary to the service of the Guest of the Hostel and does not affect the security and privacy of the Guest.

(H) Permission to use the Hostel will be granted.

(a) **Operational requirements.** - The Hostel that operates under the Tourism Office Program must meet the following criteria:

(1) **Service.** - It will have administrative staff that will provide direct service to the Guest.

(2) **Fraternization atmosphere.** - It will promote an environment for the fraternization of its Guests in the common areas.

(3) **Foodservice.** - The Operator will not have to prepare breakfast for Guests, as Guests will be responsible for preparing their food in the available kitchen. The Hostel that includes food service will use food and ingredients in perfect condition and according to the standards established by the Health Department.

(4) **Access to the public.** - Only visitors (not Guests) will be allowed access to the common areas of the facilities, not to the Rooms. These visits may be restricted if the Hostel wishes to avoid any conduct or activities that may be offensive, or contrary to adopted rules, for its better functioning.

(5) **Notification.** - A notice will be posted in the reception area indicating the rates, the rules of the Hostel, the availability of safety boxes and lockers.

(6) **Standards.** - The Guest will be provided with the rules and regulations of social coexistence to be followed to safeguard the rights and healthy coexistence among the Guests. The Hostel will provide the Tourism Office with a copy of any rules or regulations affecting the Guests.
(7) **Alcoholic beverage stipend.** - The Hostel may not operate a bar for the stipend of alcoholic beverages, nor the consumption of alcoholic beverages, although they may provide the service of refreshments to their Guests.

(8) The administration will inform the Guest of those natural, cultural and historical places of interest near the Hostel.

(a) **Responsibility.** - The Hostel will have to control excessive noise or conglomerations of users that may put at risk the safety and welfare of others. The Hostel will not allow actions contrary to public order, laws and healthy rules of social coexistence that may undermine the use of tourism and avoid any activity that affects the community, district or zoning in which it is established.

**Article 2051.01(b)-13. - Requirements for an Innship under the Puerto Rico Innship Program.**

(a) Means the brand and program of the Tourism Office that has the objective of developing a network of Small and Medium Lodgings of thematic character, within the delimitation of a traditional urban center, appealing to an experience of the history and culture of the town where the Inn is located, contributing to the economic revitalization of the urban center. The Inn will have a minimum of seven (7) rooms and a maximum of fifty (50) rooms.

(b) **General requirement.** - The Lodging that operates under the Puerto Rico Innship Program of the Tourism Office will comply with the requirements established in Article 2051.01(b)-7 of these Regulations.

(c) **Classification.** - The Inns may operate exclusively under the categories of Guest House and Hotel, applying in a primary way the exclusive physical and operational requirements of an Inn as defined in this Article. It will have a minimum of seven (7) Rooms and a maximum of fifty (50) Rooms.

(d) **Purpose.** – The Innship Program of the Tourism Office is a brand that has the objective of developing a network of Small and Medium Inns of thematic character, within the delimitation of a traditional urban center, appealing to an experience of the history and culture of the town where it is located and contributing to the economic revitalization of the urban center. The Inns offers an urban living experience to discover the history and culture of the people of Puerto Rico. The Inn contribute to sustainability by constituting projects for the use of urban spaces, by being managers of culture and by contributing to the rescue of Puerto Rico's built historical heritage.

(e) **Admission to the program.** –

(1) **Entry to the program.** - Admission to the program is voluntary. Not all Inns operating within the boundaries of an urban center will be required to enter the program. The Tourism Office reserves the right to admit an Inn to the
program. The Inn interested in joining the program must make an application to the Director of the Tourism Office.

(2) **Use of the brand.** - The Inn may use the name and logo of "Inn" as an integral part of the name of the Inn or only use the Inn's trademark as a promotional "seal or certification" of the Inn as a "member of the Innship Program". Inns of Puerto Rico (Posadas de Puerto Rico) is a registered trademark of the Tourism Office. Only the Tourism Office will authorize the use of the mark.

(3) **Selection.** - The Tourism Office will carry out an evaluation of the urban center and the Inn to determine in advance if the urban center and the Inn have the necessary attributes (conditions, amenities and facilities of the urban center) for the operation of an Inn.

(4) **Documentation.** - Only hotels in operation, previously inspected and endorsed by the Tourism Office, may enter the program:

(A) They will have all the required endorsements, permits and licenses.
(B) If it is a property of historical value, it must have the endorsement of the Institute of Puerto Rican Culture.
(C) It will have a certification (endorsement) from the Tourism Office, authorizing its inclusion in the program.
(D) They will provide any other documents required by the Tourism Office.

(5) **Inspection.** - The Tourism Office will conduct evaluations and inspections during the planning, construction and operation stages of the Inn to determine if it is eligible for the program. During the operation stage, it will be inspected by the Tourism Office to ensure compliance with the program.

(6) Any change of owner or operator will be notified, in writing, to the Tourism Office on or before thirty (30) days from the change.

(f) **Physical requirements.** - The Lodging that operates under the Puerto Rico Tourism Board's Inn Program must meet the following criteria:

(1) **Categorization.** - The certification of an Inn will be allowed exclusively under the categories of Guest House and Hotel, as defined in these Regulations.

(2) **Location.** - The Inn must be located exclusively within the limits of a traditional urban center of a municipality in Puerto Rico.

(3) **Dining room.** - It will not be required to have a dining room area, nor a restaurant, nor a kitchen, nor to serve food, if it is demonstrated that the Inn has some food establishment in the urban center, near and within walking distance of the Inn that provides the Guest, at least, with breakfast service. The Inn will orient the Guest about the places for breakfast, lunch and dinner, having a list of these, encouraging the commercial development of the urban
center. Nevertheless, the Inn will be able to count on a dining room or restaurant with the sale of alcoholic drinks.

(4) **Room.** - The Inn will have a minimum of seven (7) and a maximum of fifty (50) rooms.

(5) **Parking.** - The current permit regulations for businesses within an urban center will apply. However, the Inn may have private parking or must identify public or private parking spaces adjacent to the Inn for the benefit of the Guests.

(6) **Design** - Given the limitations and nature of urban and architectural spaces in urban centers, the Tourism Office will have flexibility in evaluating the distribution of the spaces in the Inn, their access (including access to or from the street), uses, amenities, expansions, among other related issues. Emphasis will be placed on the historical design of the urban centers. Nevertheless, the Inn may have any architectural design, as long as it is following the regulations of the Institute of Puerto Rican Culture for urban centers and historical areas.

(g) **Operational requirements.** - The Lodging that operates under the Puerto Rico Tourism Board's Inn Program must meet the following criteria:

(1) **Theme and culture.** - The Inn must constitute a thematic Lodging, adopting themes related to the history and culture of the municipality where it is located or of Puerto Rico.

(A) The theme will be reflected in the atmosphere, decoration or service of the Inn.

(B) The guest will experience a cultural tourism experience that will be reflected in the theme.

(C) In case the Inn constitutes a historical building, it must have available to the Guest a summary of information about the historical and architectural part of the building. This fulfills the objective of education and historical conservation.

(D) The Inn will become a "promoter of culture", promoting cultural activities and events in the city center and the town or the Inn. The coordination and collaboration of the Institute of Puerto Rican Culture are recommended to facilitate cultural activities.

(E) Both the Institute of Puerto Rican Culture and the Tourism Office may serve as advisors to the Inn concerning the development of the cultural theme to be incorporated.

(2) **Map of the urban center.** - The Inn will have a map of tourist attractions in the urban center.
(3) **Dissemination of the program.** - The Inn will have promotional material visible to the Guest that identifies and exposes the objective of the program, through promotional material.

(A) **Prohibition.** - The Inn may not operate a casino, slot machines, entertainment machines or similar machines and activities.

(4) **Municipal commitment.** - The commitment of the municipal government is recommended to provide the urban center with security, cleanliness, cultural activity and tourist attractions available to Guests. It is recommended that the Municipal Tourism Office operate optimally to promote the Inns, conduct tours of the urban center and provide transportation services.

**Article 2051.01(b)-14. - Requirements of a Lodging Operating under the Hotel Program.**

(a) **General requirement.** - The Lodging operating under the Hotel Program of the Tourism Office shall comply with the requirements outlined in Article 2051.01(b)-7 of these Regulations.

(b) **Physical requirements.** - The Hotel operating under the Tourism Office must meet the following criteria:

1. It will have, among others, a minimum of fifteen (15) rooms for accommodation.
2. It will have at least: a public dining room or restaurant; a foyer with a registration area; an office, warehouse, parking facilities and areas exclusively for employee use. These facilities shall be permanent structures.
3. It may include other facilities under current legislation, such as: conference and activity rooms, game entertainment rooms or casinos, swimming pools, gyms, game and entertainment rooms, courts and golf courses and other facilities for sports or recreation.
4. It may, under current legislation, have other services that are related to tourism purposes, such as: stores, florists, beauty salons and other related businesses. Whether they are operated by the Hotel or by concessionaires, these facilities will be maintained in optimal conditions of cleaning and painting, organization and decoration.
5. The rooms that have a kitchenette will have an extractor and a fire extinguisher, as well as any other equipment required by the Fire Department. In addition, they will provide dishes, cutlery, utensils, among others.
6. It will exhibit a coherent architectural design between the structure and the interior and exterior spaces.

(c) **Operational requirements.** - The Hotel operating under the Tourism Office must meet the following criteria:
In visible places of the Room will be indicated, among others, the rates of the Room, the rules, the services for the security of goods and the procedures to follow to safeguard the rights of the Guests.

Give the Tourism Office a copy of any rules, regulations, policies or standards that have been approved and that affect the Guests. All will be available upon request of the Guests.

(d) **Responsibility** –

1. The Hotel that borders on beaches, lakes and other natural or cultural resources from which they benefit, will actively collaborate in the conservation and maintenance of these.

2. Establishments such as discotheques or public bars will be allowed in the Hotel if they have been authorized by the Planning Board, OGPe or the corresponding municipality and approved by the Tourism Office and any other competent authority.

3. Excessive noise or congestion of users that may jeopardize the safety, peace of mind and well-being of others will be controlled. Actions contrary to public order, the law and the healthy norms of social coexistence that could undermine the character and tranquility of the community will not be permitted.

4. The Hotel will provide the necessary training to achieve greater effectiveness in the services it offers. The staff that attends directly to the public will receive training that promotes improvement in customer service, supervision and professional development at all levels.

**Article 2051.01(b)-15. - Alternative Accommodation.**

(a) Means any type of alternative tourist accommodation proposal of innovative, creative or sustainable character, which, due to its nature, is convenient or important to the tourist development. Some examples of alternative accommodation are:

1. Luxury camping areas ("glamping")
2. Eco hostels
3. Sustainable Tourism

(b) **Luxury Camping Areas ("Glamping")**. - Means the alternative accommodation modality of the fusion of the terms "glamour" and "camping", which consists of outdoor camping areas. It provides the experience of enjoying direct contact with nature, with elements of luxury and comfort of a Lodging. The "Glamping" shall:

1. Consist of a minimum of seven (7) Units;
2. Have one (1) or two (2) beds, night table, trunk, fan, refrigerator and private bathroom;
Outside, there is an area for cooking ("BBQ", kitchen, "kitchenette"), living area with chairs and table;

Provide minimum amenities for the benefit of the Guest, such as: swimming pool, hammocks, sitting areas, sidewalks, bicycles, kayaks, among others;

Have an area for Guest registration service, security features and measures, room cleaning service and breakfast service; and

Provide towel service in the bathrooms and bedding. The materials, equipment and decoration will be of good quality.

(c) **Eco hosting.** - Means a Lodging that will be able to operate under any of the categories of Lodgings recognized by the DDEC, whenever it fulfills the own requirements of an Ecotourism installation.

(d) **Sustainable Tourism.** - Means the concept of tourism that leads to the management of all resources in such a way that economic, social, and aesthetic needs can be met while maintaining cultural integrity, essential ecological processes, biological diversity and life support systems. It requires an ongoing process and constant monitoring of impacts to introduce preventive or corrective measures as necessary. It incorporates four (4) fundamental aspects: local economic development, resource conservation, education and participation of host communities.

(e) **General requirement.** - The Lodging operating under the Tourism Office Alternative Accommodation program shall comply with the requirements outlined in Article 2051.01(b)-7 of these Regulations. The Tourism Office reserves the right to consider, evaluate and approve any type of Alternative Lodging proposal of an innovative, creative, or sustainable nature, which, by its nature, is convenient or important to tourism development. The consideration of this type of Tourism Project will be evaluated on a case-by-case basis and does not necessarily represent an endorsement for promotional purposes or financial incentives by the Tourism Office.

**Article 2051.01(b)-16. - Supplementary Short-Term Rental.**

(a) **Eligibility.** - Short-term Supplementary Accommodations shall not be eligible as a Tourist Activity under the provisions of Section 2051.01 of the Code.

(b) A Short-term Supplementary Accommodation consists of the short-term rental or alternative accommodation, of any type of structure, Room, house or apartment that by its nature is convenient or important to the tourist development and provides, for tourist purposes and through compensation, accommodation for one (1) or more Persons, for a period equal to or less than ninety (90) days.

(c) **Purpose.** - To regulate all types of short-term accommodation available to tourists to achieve a better quality of the tourist product and to serve a segment of the tourist market with supplementary or alternative, non-traditional tourist accommodation.
options. The operator will be available to provide or coordinate a limited service to
the Guest, as requested, and at an additional cost by the Guest;

(d) Room rate. - Law No. 272-2003, as amended, known as the Commonwealth of
Puerto Rico Room Occupancy Tax Act, will apply;

(e) General requirement. - Will comply with all registration requirements, licenses and
hotel number, required by the Tourism Office.

(f) Physical requirements. - Accommodation operating as Short-term Supplementary
Accommodation must meet the following criteria:

(1) **Location.** - It must be distributed in the same property, building or complex,
and may be located in an urban or rural area.

(2) **Unity.** - It will have a minimum of one (1) Unit, up to a maximum of six (6)
Units, and each Unit will be considered one (1) independent key.
(A) Each unit must have at least: kitchen or "kitchenette"; room(s); and
toilet facilities for each unit;
(B) The use of the living room, dining room and laundry, among other
facilities or amenities, will be allowed.
(C) Each Unit shall have a minimum of one (1) Bedroom (dormitory)
equipped, according to the general provisions of Article 2051.01(b)-7
of these Regulations.

(3) **Health service.** - Each independent unit must have a complete health service.
A minimum of one (1) complete sanitary service is required for every three
(3) rooms.

(4) **Kitchen or "Kitchenette".** - Each unit must have at least one (1) kitchenette.
If you have a kitchenette, it will include: refrigerator, stove, microwave,
coffee maker, dishes, utensils and equipment of quality and uniformity of
style. The kitchen will be for domestic and residential use and will not be
considered a commercial kitchen for inspection by regulatory agencies.

(5) **Parking.** - No formal labeled parking area is required unless current permit
regulations require it based on the property size, zoning and uses. The
property must have functional parking spaces within the property to
accommodate the occupancy of the accommodation. If the property does not
have sufficient parking spaces within the property, the owner is responsible
for identifying public or private parking spaces adjacent to the housing. The
owner shall be responsible for ensuring that no parking or traffic problems
are caused that affect neighbors in the community.

(6) The accommodation does not have to have a reception area, office, bathroom
for public use, dining room, breakfast, storage area, or recreational amenities.

(7) **Labeling.** - Only signs that comply with home use regulations will be
allowed to be installed in order to maintain the residential character of the
community where it is located. The installation of signs or commercial advertising will not be allowed unless it is located in a commercial area.

(8) The accommodation and its facilities must have adequate design, aesthetics, decoration and quality equipment.

(9) No public bars or entertainment machines will be allowed on the premises of the accommodation.

(g) Operational requirements. - Accommodation operating as Short-term Supplementary Accommodation must meet the following criteria:

(1) Rent. - The rent shall always be short-term, understanding that short-term is a period equal to or less than ninety (90) days within a calendar year, according to the definition of short-term housing in Act No. 272-2003, as amended, known as the Commonwealth of Puerto Rico Housing Occupancy Tax Act.

(A) The daily rate rent may be applied;

(B) The rent will be for the exclusive use of tourists and for tourist use. It should be noted that the Units may not be rented for other uses such as: residential, commercial, or specialized student or senior citizen accommodations, etc.

(C) Each unit will be rented as a whole and independently. A unit may not be divided to rent the rooms independently, nor the rent of shared "Hostel" type beds.

(2) Operator. - The owner or resident of the property may act as the operator of the accommodation, and must be registered with the Tourism Office, or may delegate the operation to a manager registered with the Tourism Office.

(A) The owner, resident or manager is not required to reside in the property.

(B) The operational endorsement of the Tourism Office will be given to the owner or manager.

(C) An owner or manager may own, manage, operate, market and advertise up to a maximum of six (6) independent units as supplementary accommodation.

(D) Supplementary Housing located within a residential complex may not interfere with the laws, regulations, restrictive conditions and standards governing resident or condominium associations, nor shall it affect the residential character of the community.

(3) Service. - In substitution of reception and service personnel of a Lodging, the Supplementary Accommodation shall:

(A) To have a contact person available ("on-call") daily to meet the needs of the Guest's service.

(B) Complete bedding and pillows will be provided, as well as towels, soaps and toilet paper in the bathrooms.
(C) Will be available to provide or coordinate a limited and personalized service (concierge type) including: room cleaning service; food service, laundry service, among other related services, as requested by Guest, at an additional cost. These services will be provided directly or subcontracted by the Operator.

(4) **Security.** - Since no service personnel is required on the property to provide security to Guest, the Lodging will have the following safety measures:

(A) At a minimum, you should have a fire extinguisher and smoke detectors;

(B) To communicate in case of emergency, the operator shall provide Guest with telephone contact number(s) and e-mail address(es) (or other similar means). The information shall be in writing and visible in the accommodation.

(C) You must have security systems on the outside of the property that includes security lighting, security locks on the doors and any other security measures.

(D) Evidence of a pest and vermin control system.

(E) Any other documentation requested by the Tourism Office.

(5) **Reservation and registration.** - A reservation and registration process will be carried out in an organized way.

(A) No check-in/out process is required within the accommodation;

(B) A registration process of the Guest will be carried out via telephone or internet beforehand; to avoid the entrance of passers-by;

(C) Guests will be provided with a document that serves as evidence of registration confirmation and receipt of payment;

(D) The Operator will coordinate to supply the Guest safely and confidentially with any documents, keys, items or equipment needed for the accommodation;

(E) The Operator will keep a record of the Guests, including places of origin, percentage of occupation, rates and any other statistics that the Tourism Office requires.

(6) **Documentation.** - The owner of the property will be the only Person authorized to register the property at the Tourism Office. The owner or operator will present to the Tourism Office the following valid and available documents:

(A) Evidence of ownership (as applicable). - Deed of sale, lease of the property; In case the resident or operator is not the owner or tenant, he must present a letter of authorization from the owner of the property
authorizing the manager to operate the property as a Supplementary Lodging, accompanied by the deed of sale;

(B) Residential use permit. A permit for the use of a Lodging is not required;

(C) Public Liability Insurance that includes the Tourism Office as the insured party;

(D) Official photo ID of the owner, operator or manager;

(E) Evidence of registration in the "Room Tax" Division of the Tourism Office and hotel registration number;

(F) Annual Certificate of Good Conduct from the Puerto Rico Police for all Persons over eighteen (18) years of age who reside in the property or are the operators;

(G) In the case of Supplementary Accommodation located within a housing development or complex, the operator must present evidence to the Tourism Office through a letter from the resident's association or condominium association, authorizing the short-term rental of the accommodation within the residential complex;

(H) Affidavit before a notary public signed by the owner or manager, accepting and certifying that the accommodation facility meets all physical and operational requirements of a Short-term Supplementary Accommodation, as provided in this Article. The affidavit must be renewed annually for the operator to periodically certify the inspection of the facility and that it is in compliance;

(I) Any other documentation requested by the Tourism Office.

(7) **Cleaning.** - It is required that all the components of the installation are kept in an excellent state of cleanliness. It must have a pest and vermin control fumigation system.

(8) **Responsibility.** –

(A) It must be available when required for inspection by Tourism Office staff or any Person authorized by the Tourism Office;

(B) You must be registered in the "Room Tax" Division of the Tourism Office with the hotelier registration number and submit the monthly form together with the corresponding payment.

(C) The operator must ensure control of excessive noise, crowding or parking or traffic problems affecting neighbors.

(D) It should be available for the requirement of statistics if requested by the Tourism Office;

(E) Any additional accommodation that is promoted in any advertising medium (including internet, social networks and travel agents), must
indicate its hotel license number granted by the Tourism Office and may market up to six (6) accommodation units.

(F) The operational endorsement does not necessarily represent or imply promotional benefits or financial incentives by the Tourism Office.

(h) **Applicability.** - This Article shall apply to all Supplementary Accommodation and Short-Term Supplementary Accommodation, and general provisions not in conflict with the provisions of this Article shall apply. All properties in Puerto Rico that serve as Short-Term Supplementary Accommodations and that host local or external tourists, must comply with the definition of Supplementary Accommodations of this Article, therefore, properties that do not comply with the definition of Supplementary Accommodations of this Article cannot be rented for tourist use. The endorsement of the Tourism Office does not necessarily constitute an endorsement for purposes of Tourism Office financial incentives and other related benefits.
SUBCHAPTER B. - TAX BENEFITS

Article 2052.01(a)-1. - Distribution of Tourism Development Income.

(a) **General rule.** - The distribution of Tourism Development Income by an Exempt Business that is not a conduit entity will be subject to the payment of income tax, if any, only once in the distribution chain. The Exempt Business that carries out an activity that does not qualify as a Tourism Activity under the Code or these Regulations must maintain separate books to determine which distribution qualifies as a distribution of Tourism Development Income and which distribution does not qualify as such and therefore will be subject to taxation more than once in the distribution chain.

(b) **Taxation of a conduit entity.** - In the case of a Person who has an election to be taxed as a conduit entity under the Internal Revenue Code, the preferential fixed rate provided by paragraph (a) of Section 2052.01 of the Code shall flow to the Person's shareholder, partner, or member and the treatment of the distribution of Tourist Development Income shall be governed by the provisions of the Internal Revenue Code. Distribution of Tourism Development Revenue by a shareholder, partner, or member of a conduit entity, which is not another conduit entity, shall be subject to the provisions of paragraph (a) of Section 2052.01 of the Code.

(c) **Taxation of a Condo Hotel or Boat Program** - The Operator of a Condo Hotel Program or a Boat Program, as the case may be, must certify annually to the Treasury Department, the Tourism Office and each Unit or Boat owner, the amount of the Tourism Development Income generated. The owner of the Unit or vessel, as the case may be, must accompany a copy of the certification with his or her income tax form for each Taxable Year in which he or she earns Income from Tourist Development.

(d) **Taxation of a lease of movable or immovable property to an Exempt Business** - An Exempt Business that leases real or personal property to another Exempt Business shall be eligible for the preferential fixed rate described in paragraph (a) of Section 2052.01 of the Code only concerning income generated from the rental of property to an Exempt Business that is used directly in a Tourist Activity. If the lease of the property to an Exempt Business is tied to a service or maintenance contract, only the revenue generated by the lease shall be eligible, which shall exclude the cost of services provided. To claim the preferential fixed rate, the Exempt Business must maintain separate books to identify the income that is eligible for the preferential fixed rate. The Tourism Office may conduct inspections of the Exempt Business' facilities.

(e) **Taxation of a Tourist Marina**. - The Exempt Business operating a Tourist Marina shall be eligible for the preferential fixed rate described in paragraph (a) of Section
2052.01 of the Code, solely concerning income generated from providing areas and services to Nautical Tourism Craft, foreign registered vessels, whose ownership and possession resides with a Foreign Person or other Nautical Tourism Activities. The income generated by services provided to a Person who maintains his boats in the Navy permanently for his private use will not be considered like Income of Tourist Development. The percent of exemption on the payment of contribution on the property is the percent of the income generated by the Tourist Navy that is Income of Tourist Development, multiplied by the rate of exemption on the payment of contribution on the property provided by the Decree.

(f) **Taxation of a Clinic for Medical Treatment** - An Exempt Business that operates a Medical Treatment Clinic that is not operated by a Hotel, but merely associated with a Hotel that is an Exempt Business, must maintain specific records of the income generated by patients who reside outside of Puerto Rico and who traveled to Puerto Rico to receive the Medical Treatment. The income shall be considered Tourist Development Income only for purposes of the preferential fixed rate provided in paragraph (a) of Section 2052.01 of the Code and for purposes of the municipal patent exemption of Section 2052.03 of the Code. The property tax exemption percentage shall be the percentage of income generated by the Clinic for Medical Treatment that is Tourist Development Income, multiplied by the property tax exemption rate provided by the Decree.

**Article 2052.01(c)-1. - Sale or Barter.**

(a) **General rule.** - When the sale or exchange of Shares of a Person, or substantially all of the assets dedicated to a Tourist Activity of an Exempt Business, takes place and the property continues to be dedicated to a Tourist Activity after the sale for a period of at least twenty-four (24) months:

1. During the exemption period, the gain or loss resulting from the sale or exchange will be recognized in the same proportion as the Tourism Development Income of the Exempt Business which will be subject to the payment of tax on income and the basis of the Shares or assets involved in the sale or exchange will be determined for purposes of establishing the gain or loss, by the Internal Revenue Code.

2. After the expiration date of the exemption, only the gain or loss on the sale or exchange of Shares shall be recognized in the manner provided by paragraph (1) of this section (a), but only up to the total value of the Shares on the Person's books on the expiration date of the exemption (reduced by the amount of any exempted distribution received on the Shares after that date) less the basis of the Shares. The remainder, if any, of the gain or loss will be recognized by the Internal Revenue Code. The gain or loss on the sale or
exchange of the assets will be recognized by Subtitle A of the Internal Revenue Code.

(3) The requirement that the property continues to be dedicated to a Tourism Activity for a period of at least twenty-four (24) months shall not apply in those cases where the sale or exchange is of the Shares of an Investor that is not a Promoter and does not exercise Control over the Exempt Business.

(b) The term "sale or exchange" includes the redemption of Shares of a shareholder, partner or member of a Person, including a special partnership and the process of liquidation of all or part of a Person. For paragraph (c) of Section 2052.01 of the Code or paragraph (a) of this Article to apply, the property must continue to be engaged in a Tourist Activity for a period of at least twenty-four (24) months after the sale or exchange. However, in cases where the requirement is not met, the DDEC Secretary may consider the gain on the sale or exchange to qualify when the circumstances that resulted in the property not continuing to be engaged in a Tourist Activity indicate that there was a genuine effort on the part of the buyer to continue a Tourist Activity. In any sale or exchange of Shares of a Person, or of all assets dedicated to a Tourism Activity of an Exempt Business, the portion that will be exempt in equal proportion to the Tourism Development Income of the Exempt Business will be that which is attributable to or comes from the assets dedicated to the Tourism Activity.

(c) For purposes of the Code and these Regulations, the term "substantially all of the assets" means at least eighty percent (80%) of the Person's assets at the close of the Tax Year.

(d) For the gain or loss from the sale or exchange to be considered as arising from a Tourist Activity, the requirement that the assets continue to be engaged in a Tourist Activity applies regardless of whether the sale or exchange is of Shares or substantially all of the assets of the Exempt Business. The Exempt Business that has a gain from the sale or exchange of assets that are not dedicated to a Tourism Activity will deduct these from the proceeds of the sale to determine the exempt portion.

(e) The exemption to which you are entitled in the event of a sale or exchange does not depend on whether or not an Exempt Business has made use of its right not to be covered by the flexible tax exemption in paragraph (d) of Section 2052.01 of the Code, during the Tax Year in which the sale or exchange takes place. Thus, the income generated from the sale of all assets of a Tourism Activity made in a Tax Year in which the Exempt Business that owns a Tourism Activity avails itself of the benefit of the flexible tax exemption shall be exempt to the extent that it would have been so if the Exempt Business had not availed itself of the benefit. The benefit of the flexible tax exemption on the gain derived from the sale or exchange of the Shares in the Exempt Business will only be available for a term of fifteen (15) years from the date of commencement of the Decree for purposes of the payment of income tax.
Examples. - The provisions of this Article are illustrated by the following examples.

1. The bona fide Puerto Rican shareholder "R" sells in Puerto Rico all the issued and outstanding Shares of Corporation "C", the entire operation of which is covered by a Decree under Chapter 5 of Subtitle B of the Code and these Regulations. As of the date of sale of the Shares, "C" has accumulated profits and benefits of $3,000,000. The sale price of the Shares is $4,000,000 and the basis for "R" is $500,000. The property continues to be a Tourist Activity for a period of 26 months after the sale for "R". For purposes of determining the gain on the sale of the Shares, the adjusted basis is $3,500,000 ($500,000 + $3,000,000). The realized gain recognized by "R" on the transaction is $500,000 ($4,000,000 - 3,500,000), which will be subject to a 4% tax rate.

2. The same facts as in Example 1 are assumed, except that "R" is not a resident of Puerto Rico at the time of sale and the property ceases to be a Tourist Activity. In this case, if the sale is of the Shares of "C" it does not generate income from Puerto Rico sources, so it will not be subject to taxation in Puerto Rico. However, if the sale is in the interest of a corporation, limited liability company or joint venture, the income will be classified by the provisions of Section 1035.08 of the Internal Revenue Code.

Article 2052.01(d)-1. - Flexible Tax Exemption.

(a) General rule. - The Exempt Business has the right to elect that Tourism Development Income for a specific Tax Year not be covered by the tax exemption provided by paragraph (a) of Section 2052.01 of the Code, by accompanying a notice with its income tax return for that Tax Year, filed on or before the date provided by the Internal Revenue Code, including any extension granted by the Internal Revenue Code or the Secretary of the Treasury.

(g) Irrevocability. - The Exempt Business that elects to avail itself of the benefits of paragraph (a) of this Article shall give notice of the election and the election shall be irrevocable and binding on the Exempt Business.

(h) Notification. - The Exempt Business that elects to avail itself of the benefits of paragraph (a) of this Article, shall notify, in writing, the Incentive Bureau, the Tourism Bureau and the Secretary of the Treasury of the election, providing that the notification to the Secretary of the Treasury shall be made through the filing of the income tax return applicable to the Taxable Year that the Exempt Business is availing itself of the election.

(i) Other exemptions. - An Exempt Business that elects to avail itself of the benefits of paragraph (a) of this Article shall not be affected by the use of the other exemptions granted by the Code.
(j) **Limitation.** - The total number of years an Exempt Business may enjoy exemption will not exceed fifteen (15) years.

(k) **Example.** - The provisions of this Article are illustrated by the following example.

(1) Assume that Corporation X is an Exempt Business that received a Code benefits order effective January 1, 2020, and that the fixed preferential income tax rate began on that same date. Corporation X files its income tax return on a calendar year basis. For tax years 2020, 2021, 2022, and 2023, Corporation X used its flat-rate income tax preference. At the time it filed its return for the tax year 2024, Corporation X notified the Secretary of the Treasury that it was using the flexible tax exemption benefit granted by the Code. Again, in 2025, Corporation X used its preferential fixed income tax rate. For Code purposes, Corporation X has used 5 of its 15 years of tax exemption.

**Article 2052.01(g)-1. - Exemption for Interest Paid or Credited on Bonds, Notes or Other Obligations of an Exempt Business.**

(a) **General rule.** - Every Person shall be exempt from the payment of any income tax imposed by the Internal Revenue Code and municipal patent imposed by the Municipal Patent Law, on income from interest, charges and other credits received concerning bonds, notes or other obligations of the Exempt Business for the development, construction, rehabilitation or improvements to the Exempt Business, providing that the use of the funds be used in full for the development, construction, rehabilitation, or improvement of the Exempt Business or the payment of existing debts of the Exempt Business, provided that the funds from those existing debts were originally used for the development, construction, rehabilitation, or improvement of the Exempt Business. The expense incurred by a Person making an investment described herein is not subject to Internal Revenue Code Sections 1033.17(a)(5), 1033.17(a)(10), and 1033.17(f) concerning the investment and the income derived therefrom.

(b) The proceeds of the bond, promissory note or other obligation must be given directly to the Exempt Business.

(c) An Exempt Business that devotes a portion of its property to a Tourist Activity not eligible for the benefits of the Code, such as a Tourist Marina that provides services to private boat owners, the proportion of the interest, charges and other credits that are considered exempt is that proportion of the interest, charges and credits attributable to the eligible Tourist Activity.
Article 2052.01(h)-1. - Net Loss Carryforward and Deduction.

(a) General rule. –
   (1) If the Exempt Business incurs a net loss that is not from the operation of a Tourist Activity, the loss will be deductible and may only be used against income that is not Tourist Development Income and will be governed by the provisions of the Internal Revenue Code.
   (2) If the Exempt Business incurs a net loss in the operation of a Tourist Activity, the loss will be deductible and may be used against Tourist Development Income.
   (3) A deduction will be granted for loss carry-forward incurred in previous years, as provided below:
      (A) The excess of the loss deductible under paragraph (2) of this subsection may be carried forward against Tourism Development Income, subject to the limitations provided in Section 2052.01 of the Code. The loss shall be carried forward in the order in which it was incurred.
      (B) Any net loss incurred in a Tax Year in which the election in paragraph (d) of Section 2052.01 of the Code, relating to the flexible tax exemption is in effect, maybe carried forward only against the Tourism Development Income generated by the Exempt Business in a Tax Year in which the flexible tax exemption election was made. The loss will be carried forward in the order in which it was incurred.

(b) Exception. - The loss of an Exempt Business may be carried forward to future years by the provisions of the Internal Revenue Code, providing that a net loss may only be deducted against income of a similar nature, except in the cases of a conduit entity, in which nothing herein limits in any way the right of a shareholder, partner or member to claim, under the Internal Revenue Code, a deduction for its distributable portion of the conduit entity's loss against income from other sources, subject to the limitations imposed under the Internal Revenue Code. The loss carried forward by the Exempt Business, no matter what its nature, may be used against the income generated by the sale or exchange of the Exempt Business, under the provisions of paragraph (c) of Section 2052.01 of the Code.

(c) Base or adjusted base. - For purposes of the Code and this Regulation, concerning the exemption in paragraph (d) of Section 3010.01 of the Code relating to the base adjustment and recovery of the Eligible Tourism Investment Tax Credit, any reference to the term "base" or the phrase "adjusted base" requires computation as outlined in Section 1034.02, 1071.05 or 1114.17 of the Internal Revenue Code, before the adjustments incorporated in the Code and this Regulation.
Article 2052.02-1. - Property Contribution.

(a) **General rule.** - The Property Dedicated to a Tourist Activity will enjoy up to seventy-five percent (75%) of exemption from all municipal and state taxes on movable or immovable property.

(b) **Property used in accommodation.** - In cases where the movable property consists of equipment and furniture to be used in an accommodation, excluding any commercial unit and in case of special timeshare rights, vacation rights of real nature or accommodation, as defined in Law No. 204-2016, known as the "Vacation Property Law of Puerto Rico", of a Multi-Property Rights Plan or Vacation Club licensed by the Tourism Office, the real or personal property shall have a seventy-five percent (75%) exemption, regardless of who owns the equipment, furniture or real property dedicated to a Tourist Activity. The exemption will last as long as the Decree for the Multi-ownership Plan or Vacation Club remains in force.

(1) The Exempt Business shall submit to the DDEC Secretary an application for incentives on the contribution to Property Dedicated to Tourist Activity, as provided in Section 6020.01 of the Code. The application shall contain the characteristics of the property, its use, investment and composition in terms of the number of keys and their variants. In addition, the Exempt Business must submit an application for endorsement of Tourist Activity at the Tourism Office. Once the process is completed and the endorsement is granted, the Exempt Business may use the endorsement as a requirement to claim the tax benefit.

(c) Shares in a Person enjoying a Decree shall not be subject to the payment of property tax.

(d) **Exemption for businesses that combine a Tourist Activity with an ineligible activity** - An Exempt Business that dedicates a portion of its property to a non-tourist activity for the benefits of the Code, such as a Tourist Navy that provides services to private boat owners, will be eligible for the seventy-five percent (75%) exemption only concerning property used in a Tourist Activity. To claim the exemption, the Exempt Business must maintain an inventory of all real or personal property owned by it, identifying that which will be used in a Tourist Activity or the percentage of the property that will be used in a Tourist Activity. The Tourism Office may make inspections of the facilities to verify compliance with this paragraph (d).

(e) **Exemption for businesses engaged in the leasing of real or personal property to an Exempt Business** - An Exempt Business that leases real or personal property to another Exempt Business shall be eligible for the seventy-five percent (75) exemption only with respect to property leased to an Exempt Business. In order to claim the exemption, the Exempt Business must maintain an inventory of all personal property or real estate owned by it that will be rented to another Exempt Business.
Article 2052.03-1. - Municipal Contribution.

(a) **General rule.** - A New Tourism Business or an Existing Tourism Business that is an Exempt Business, as the case may be, shall enjoy up to fifty percent (50%) exemption from municipal patent, tax and other municipal contributions on its Tourism Development Income, transactions, events, or use, imposed by any ordinance of a municipality.

(l) Except as provided by the Municipal Patent Law, no municipality may impose a levy, duty, license, arbitration or another charge that is based upon the stay of a Person as a Guest of an Exempt Business.

(m) **Exemption for businesses that combine a Tourist Activity with an ineligible activity** - An Exempt Business that dedicates a portion of its property to a non-tourist activity for the benefits of the Code, such as a Tourist Navy that provides services to private boat owners, will be eligible for the fifty percent (50%) exemption only concerning turnover dedicated to a Tourist Activity. To claim the exemption, the Exempt Business must maintain separate books to identify the turnover dedicated to a Tourist Activity. The Tourism Office may make inspections of the facilities to verify compliance with this paragraph (c).

(n) **Exemption for businesses engaged in the leasing of real or personal property to an Exempt Business** - An Exempt Business that leases real or personal property to another Exempt Business shall be eligible for the fifty percent (50%) exemption only concerning the business engaged in the rental of property to another Exempt Business. To claim the exemption, the Exempt Business must maintain separate books to identify the turnover dedicated to a Tourist Activity.

(o) **Determination of turnover of a contractor or subcontractor.** –

(1) **General rule.** - A contractor or subcontractor of an Exempt Business may deduct payments made to another subcontractor when determining the computation of its turnover under the primary contract with the Exempt Business. A subcontractor that uses another subcontractor within the same Tourism Project will also deduct those payments when determining its turnover.

(2) **Requirement.** - Any contractor or subcontractor wishing to avail itself of the benefits of this Article must demonstrate to the DDEC Secretary that it will be transferring the benefits to the Exempt Business through adjustments in the amount of the primary contract. The DDEC Secretary shall, from time to time, issue an administrative determination, circular letter, newsletter or other official communication of a general nature outlining the criteria to be used in its determination as to whether the benefit of this Article is indeed being transferred to the Exempt Business, such as whether, after including the discounts provided herein, the profit margin of the petitioning contractor or
subcontractor for the Tourism Project compares with the profit margin for similar Tourism Projects that do not enjoy the benefit provided herein.

(3) **Application.** - Any contractor or subcontractor performing work for an Exempt Business who wishes to avail himself of the benefits provided herein, shall apply with the Tourism Office. The application shall be made through an affidavit from which the turnover to be deducted from the municipal patent computation and the reasons for the assertion that the benefits of this Article are being transferred to the Exempt Business are derived. The applicant shall, in addition, submit to the municipality or municipalities where the work is to be performed, a copy of any contract related to the work within ten (10) days of its date of grant, or, in the alternative, shall provide to each municipality or municipalities, within said ten (10) days, a summary of any contract related to the work containing the name, physical and mailing address and social security number or employer identification number, as the case may be, of any subcontractor, the nature of the contract and the date on which the contract was signed. In cases where the contractor or subcontractor files the summary, the municipality officials may require him to submit a copy of the contract(s), in which case the contractor or subcontractor must submit it within ten (10) days of receiving notice from the municipality.

(4) **Certification.** - The Tourism Office, after studying the affidavit and any other document it deems necessary to request for the determination of the amount to be discounted from the turnover, will issue a certification for the signature of the DDEC Secretary authorizing the contractor or subcontractor to discount the payments made to another subcontractor under the primary contract with the Business Exempt from the computation of the turnover. The DDEC Secretary shall issue the certification within thirty (30) days of the filing of the affidavit with the Tourism Office.

(5) **Reconsideration.** - In cases where a negative certification is issued, the Exempt Business may request reconsideration within a term of fifteen (15) days and present additional evidence that justifies the issuance of the certificate.

(6) **Fine.** - If it is determined that any contractor or subcontractor submitted false information to obtain certification, the DDEC Secretary shall deny or revoke the application, as appropriate, and impose an administrative penalty on the petitioning contractor or subcontractor that shall be no less than one hundred dollars ($100) nor more than five percent (5%) of the amount of the primary contract with the Exempt Business.

(7) **Contract signed before the Decree.** - The contractor or subcontractor of the Exempt Business that has signed contracts before the date of the Decree for
the Exempt Business shall have ten (10) days from the date of the Decree to comply with the requirements of this paragraph (e) of this Article.

Article 2052.04-1. - Contribution on Articles of Use and Consumption.

(a) **General rule.** - The Exempt Business shall enjoy up to one hundred percent (100%) exemption in the payment of taxes imposed under Subtitles C, D and DDD of the Internal Revenue Code concerning those items acquired and used by the Exempt Business in connection with a Tourist Activity.

(b) **Purchase by a contractor or subcontractor.** - The exemption includes items purchased by a contractor or subcontractor to be used solely and exclusively by the Exempt Business in construction work related to a Tourist Activity of the Exempt Business.

(c) **Certificate of exemption.** - In cases where the movable property consists of equipment and furniture to be used in an accommodation licensed by the Tourism Office, the Exempt Business shall apply in the form of a sworn statement to the DDEC Secretary and the Secretary of the Treasury, requesting the issuance of certification to that effect, accompanied by a copy of the documents proving that the items will be used in the development, organization, construction or the course of the operations of a Tourist Activity and not in any other related operation. The Exempt Business shall specify the articles to be acquired, the seller of the articles, the price per Unit of the articles, and any other information that may be required by the Tourism Office and the Secretary of the Treasury.

(d) **Ordinary procedure.** - The DDEC Secretary and the Secretary of Finance shall verify that all documents have been filed as required, evaluate the applications in consultation with the Tourism Office and other areas of the Department of Finance and prepare the corresponding certificate for the signature of the DDEC Secretary and the Secretary of Finance. In those cases where the staff of the Tourism Office or the Treasury Department determines that the petitioner must submit additional documents, they will inform the petitioner and provide a ten (10) countdown from the notification within which the documents must be submitted. If the petitioner does not submit the required documents within the established term, it will be considered that its request for the certificate for exemption has been withdrawn.

(e) **Expedited procedure.** - Upon the request of an Eligible Business, the Secretary of the Treasury shall certify within twenty (20) days of the Eligible Business' request, the exemption from the payment of sales and use tax ("UTI"), to the Eligible Business that has applied for a Decree under Chapter 5 of Subtitle B of the Code, and that as of the date of application, construction work related to a Tourist Activity has commenced, or is scheduled to commence within the next ninety (90) days. To be eligible for the exemption certification before the approval of the Decree, the Eligible
Business must evidence that it has completed the Decree application in full and that, it is a Responsible Person with its contributions to the Tourism Office, the Department of Finance, the corresponding municipality and the Municipal Revenue Collection Center (CRIM). For these purposes, the Eligible Business must submit to the Secretary of the Treasury, or the authorized Person designated by him, a copy of the negative certifications of debts and filing of forms with the Tourism Office, the Treasury Department, the corresponding municipality and the CRIM. Nothing in this section prevents the Secretary of the Treasury from requesting from the Eligible Business or Exempt Business, as the case may be, a bond under the applicable provisions of the Internal Revenue Code, before the issuance of the exemption certificate.

(f) **Numbering of the certifications.** - The certifications shall be numbered consecutively, and a file shall be kept, classified by Exempt Business, in which the documents related to each certification shall be included.

(g) **Reconsideration.** - In cases where a negative certification is issued, the Exempt Business may request reconsideration within a term of fifteen (15) days and present additional evidence that justifies the issuance of the certificate.

(h) The certification will be issued to the Secretary of the Treasury for the attention of the seller and the Director of the Excise Department Business, with a copy to the Exempt Business.

**Article 2052.07(b)-1. - Date of Commencement of Operations and Periods of Exemption.**

(a) **Start date.** - Except as provided in paragraphs (1) through (5) of subsection (a) of Section 2052.07 of the Code, the commencement date of a Tourist Activity for the Exempt Business shall be determined by the DDEC Secretary.

(b) **Postponement of the start date.** - Once an application for a Decree is approved, the exemptions granted shall begin to apply as of the date indicated in paragraph (a) of this Article, unless a decision is made to the contrary. Each exemption granted by the Code has a different commencement date and each may be postponed at the election of the Exempt Business until it is more favorable to it. Exemptions may not be postponed beyond thirty-six (36) months from the date of commencement of the exemption provided by the Code.

(1) **Notification.** - The Exempt Business shall notify the postponement of the commencement date of operations through the Portal created by the Incentive Bureau under Section 6011.03 of the Code. The notice shall be filed during the twelve (12) month period from the date the Exempt Business is scheduled to commence the exemption notwithstanding the postponement, on or before the date for the filing of any return, including extensions.
(c) **Postponement of the effective date.** - Exemptions granted by the Code may be postponed by notice filed with the DDEC Secretary and the Secretary of the Treasury, together with your application for the benefits of the Decree, or during the period of thirty-six (36) months from the date scheduled for the commencement of the exemption of the Exempt Business not to benefit from the postponement, on or before the date for the filing of any return, including extensions of

(1) **Notification.** - The notification for the postponement of the exemptions granted by the Code made with the application shall be made through an attachment containing the following information:

(A) Name and address of the Exempt Business; and

(B) Type of exemption you want to postpone and the period for which you want to postpone the exemption.

(2) **Affidavit.** - The notification for the postponement of the exemptions granted by the Code made after the date of the Decree shall be made through an affidavit containing the following information:

(A) Name and address of the Exempt Business;

(B) Date of the Decree;

(C) Statement to the effect that the exemptions have not been previously postponed for a period longer than thirty-six (36) months and that the postponement notified will not result in a postponement beyond the thirty-six (36) month period;

(D) Type of exemption you want to postpone and the period for which you want to postpone the exemption;

(E) The DDEC Secretary shall issue a decree setting forth the dates for the commencement of the exemptions. The decree stating the commencement date of the exemptions shall accompany any income tax return to be filed in connection with the exemptions granted.
SUBCHAPTER C. - SPECIAL PROVISIONS

Article 2054.01(a)-1. - Transfer of Exempt Business.

(a) **Transfer of a Decree to more than one Assignee.** - In addition to the transfers provided for in paragraphs (a) and (b) of Section 2054.01 of the Code, the DDEC Secretary may approve the transfer of a Decree granted under the Code to more than one assignee or, likewise, partially assign the Decree while retaining the benefits in cases where the Decree has been granted for more than one Tourism Activity, or in those cases where more than one Person is substantially involved in a Tourism Activity. The approval of a partial transfer will be conditioned to the fact that the Tourism Activity of the concessions granted as a result of the transfer will be part of the Tourism Activity of the original concession.

(b) **Notification** - The Exempt Business shall inform the DDEC Secretary of any transfer made within thirty (30) days of the transfer. The transfer shall be notified through the Portal established by the Incentive Bureau under Section 6011.03 of the Code.
CHAPTER 6. - MANUFACTURING

SUBCHAPTER A. - ELIGIBILITY

Article 2061.01(a)(4)(i) -1. - Business Conglomerates.

(a) **Criteria for classifying a conglomerate in the manufacturing sector as having a high economic impact.** - The DDEC Secretary, in consultation with the Planning Board, will use the following criteria outlined by the Office of Strategic Planning and Economic Analysis, attached to the Business Development Area of the Industrial Development Company, to determine whether a conglomerate in the manufacturing sector is one with a high economic impact.

(1) **Location Quotient.** - This indicator is used to measure the level of concentration or specialization of economic activity in a given region. As part of the assessment, it is important to identify which basic industries are driving the region's economy. In this context, the term "basic industries" refers to those that are export oriented. When the location quotient (LQ) is greater than one (1.00), the activity under analysis is considered to be a basic export-oriented industry and as such, part of the country's economic base. An LQ substantially greater than one (1.00) suggests that the conglomerate has certain local advantages related to the production of its goods.

(2) **Value of exports.** - The value of exports is an indicator of the capacity of each activity to generate added value. For an industry to be considered a conglomerate, it must have an export base, since new money from abroad will have a positive impact on Puerto Rico's economic development. The value of the exports of each industry must be evaluated and published annually by the DDEC through Administrative Decrees or general communications.

(3) **Jobs.** - Job creation is one of the indicators to measure the effectiveness of a country's promotional policy. The value of jobs created by industry must be published by the DDEC annually through Administrative Decrees or general communications.

(4) **Technological Level, Transfer and Use of Knowledge** - With the approval of the Code, the focus seeks to increase the attraction of industries and services that use and/or export high technology intensively, in turn driving the knowledge economy. Industries that use science and technology more intensively generate a greater transfer of knowledge.

(5) **Linking Level and Multiplier Effect.** - The development of industrial conglomerates in Puerto Rico requires the promotion of a higher level of
linkage between the different sectors of the local economy and the industrial activity of external capital. External companies that make or could make more intensive use of locally produced or provided goods and services are those that generate a greater level of linkage with local companies. The greater the level of linkage between different sectors of the economy, the greater the multiplier effect of productive activities.

**Number of establishments.** - The number of productive operations within each industry should indicate its level of relative economic importance and its potential for expansion. The number of productive operations establishments within each industry and their corresponding economic impact must be published by the DDEC annually through Administrative Decrees or general communications.

**Number of Jobs per Establishment.** - The average employment per establishment for each manufacturing industry is an indicator that can better measure the economic impact of different industries. The number of employment establishments per establishment within each industry and their corresponding economic impact should be published by the DDEC annually through Administrative Decrees or general communications.

### Article 2061.01(a)(4)(i)-2. - Identification of Conglomerates.

(a) Based on the criteria outlined in subsection (a) of Article 2061.01(a)(4)(i)-1, the Economic Industrial Impact Index is determined by the sum of the ranges obtained by the various industries in the above-mentioned categories. The industries with the lowest indices represent those with the greatest economic impact. Using the criteria outlined by the Office of Strategic Planning and Economic Analysis, attached to the Business Development Area of the Industrial Development Company and the Planning Board, the DDEC Secretary preliminarily determines that the following industries will be considered as conglomerates with a high economic impact on the manufacturing sector:

(1) Pharmaceuticals;
(2) Medical equipment and supplies;
(3) Food;
(4) Other chemical products;
(5) Computer and electronic products;
(6) Clothing;
(7) Electrical equipment, appliances and components; and
(8) Aerospace.

Every three years, the DDEC will evaluate and update the industries that qualify to be classified as high economic impact conglomerates in the manufacturing sector and will
issue an Administrative Decree to that effect.

**Article 2061.01(a)(4)(i)-3. - Eligible Conglomerate Services.**

(a) As provided in Section 2061.01(a)(4)(i) of the Code, essential services that are provided through subcontracting to the high economic impact conglomerates identified in Section 2061.01(a)(4)(i)-1 shall be considered eligible businesses under the provisions of Chapter 6 of Subtitle B of the Code, provided they comply with Section 2061.01(a)(4)(i) of the Code. Such determination shall be made by the DDEC Secretary based on information and documentation required from a person or entity applying to be an eligible business under Section 2061.01(a)(4)(i) of the Code, which shall include the particular characteristics of the service to be rendered, or already rendered, by the particular industry considered to be a high-impact conglomerate in the manufacturing sector under Article 2061.01(a)(4)(i)-1, a detailed and substantiated description of why such applicant is deemed to provide a critical service to such conglomerate and any other information that the DDEC Secretary believes is necessary to properly evaluate the application in question.
SUBCHAPTER B. - TAX BENEFITS

Article 2062.01-1. - Payment of Contribution.

(a) In the absence of any provision to the contrary, the contributions withheld or payable as required by Section 2062.01 of the Code, shall be withheld or paid in the form and manner provided by the Puerto Rico Internal Revenue Code for the payment of taxes on income and withholdings in general. In addition, the requirements related to the information returns established in paragraph (j) of Section 1062.08 of the Puerto Rico Internal Revenue Code and paragraph (d) of Section 1062.11 of the Internal Revenue Code shall apply.

Article 2062.01(a)-1. - Income Tax.

(a) **Fixed rate of contribution on income.** - In general, exempt businesses that have an Executive Decree under Chapter 6 of Subtitle B of the Code shall be subject to a fixed rate of income tax on their Industrial Development Income of four percent (4%), excluding Income from Eligible Investments as provided in Section 2062.01(c) of the Code.

(1) **Exception.** - Exempt businesses whose royalty payments for the use or privilege of use of intangible property in Puerto Rico made to foreign persons not engaged in industry or business in Puerto Rico are subject to the withholding tax rate provided for in paragraph (2) of section 2062(b).01 of the Code, shall be subject to a fixed rate of contribution on income over their Industrial Development Income of eight percent (8%), excluding Income from Eligible Investments, which shall be subject to the provisions of paragraph (c) of Section 2062.01 of the Code.

(2) Income from Eligible Investments, both under the general rule and the Exception, shall be exempt from taxation under the provisions of paragraph (c) of Section 2062.01 of the Code.

(3) Any Exempt Business that has an Executive Decree issued under Chapter 6 of Subtitle B of the Code and that is located or locates its operations in the Municipalities of Vieques or Culebra shall be subject to a fixed rate of revenue tax of two percent (2%) as provided in Section 2013.02 of the Code. The remainder of the exemption period of such exempt business shall be taxed at the four percent (4%) flat rate of income tax instead of any other income tax if any, as provided in Section 2013.02 of the Code. In cases where a business exempt under Chapter 6 of Subtitle B of the Code operates in several municipalities, including Vieques or Culebra, and the Industrial Development Income from each of its operations cannot be accurately determined because it does not make direct sales to customers, the Industrial
Development Income shall be attributed to such activities as follows

(A) The Industrial Development Income of the exempt business for each taxable year will be attributed to the operations located in the municipalities of Vieques or Culebra considering any of the following factors at the election of the exempt business. The election will be made at the time of filing the first return in which the attribution of Industrial Development Income is necessary. Such election may not be changed, except with the prior written authorization of the Secretary of the Treasury:

(i) The proportion of the net book value of the tangible property (PP&E) in the municipalities of Vieques or Culebra to the total property value of the exempt business;

(ii) The ratio of the square footage of buildings and structures used in operations in the municipalities of Vieques or Culebra, to the total square footage of buildings and structures used in the operations of the exempt business; or

(iii) The method of turnover allocation used by the business for purposes of Section 7 of the Municipal Patent Act, as amended.

(B) The result of the selected factor will be applied to the Industrial Development Income of the Exempt Business to determine the income attributable to the operations in the municipalities of Vieques or Culebra. The Exempt Business may use an alternative method to determine the Industrial Development Income attributable to operations in the municipalities of Vieques or Culebra more precisely, with the prior authorization of the Secretary of Finance.

Article 2062.01(b)-1. - Royalties and License Fees.

(a) Notwithstanding the provisions of the Puerto Rico Internal Revenue Code, payments made by exempt businesses that have a Decree under Chapter 6 of Subtitle B of the Code to Foreign Persons not dedicated to industry or business in Puerto Rico, for the use or privilege of use in Puerto Rico of intangible property related to the transaction declared exempt under Chapter 6 of Subtitle B of the Code, that are considered to be entirely from sources within Puerto Rico, shall be subject to the following rules:

(1) Contribution to Foreign Persons not dedicated to industry or business in Puerto Rico. - A contribution of twelve percent (12%) shall be imposed, collected and paid for each taxable year, instead of the contribution imposed by the Puerto Rico Internal Revenue Code, on the number of such payments received or implicitly received, by a Foreign Person not dedicated to industry or business in Puerto Rico, exclusively from sources within Puerto Rico.
To determine whether a Foreign Person has received or impliedly has received a payment subject to the contribution imposed by Section 2062.01(b)(1) of the Code and this article, the rules and principles of Section 1040.03 of the Puerto Rico Internal Revenue Code shall apply.

(2) **Alternative rate of contribution and withholding at the source.** - The DDEC Secretary shall have the authority to allow exempt businesses that make payments entirely from Puerto Rico sources, for the use or privilege of use in Puerto Rico of manufacturing intangibles related to the operation declared exempt, such as patents, intellectual property, formulas, know-how and other similar property, to be subject to the following treatment:

   (A) A contribution of two percent (2%) over the amount of such payments, received or implied, by any Foreign Person not dedicated to industry or business in Puerto Rico, totally from sources within Puerto Rico, shall be imposed, collected and paid for each taxable year, instead of the contribution imposed by the Internal Revenue Code of Puerto Rico.

To determine whether a Foreign Person has received or impliedly has received a payment subject to the contribution imposed by Section 2062.01(b)(1) of the Code and this article, the rules and principles of Section 1040.03 of the Puerto Rico Internal Revenue Code shall apply.

The alternative withholding tax rate permitted by paragraph (2) of subsection (b) of Section 2062.01 of the Code shall be irrevocably established before the commencement of the effectiveness of the Tax Exemption Decree and shall be documented as part of the terms and conditions agreed to in the Decree. This alternative taxation shall not apply to exempt businesses described in Section 2014.02 of the Code.

(3) **Withholding at the source of the contribution in the case of payments to Foreign Persons not dedicated to industry or business in Puerto Rico.** - Any Exempt Business that makes payments to Foreign Persons for the use in Puerto Rico of intangible property related to the exempt transaction under Chapter 6 of Subtitle B of the Code, shall deduct and withhold at source a tax equal to that imposed in paragraph (1) or (2) of paragraph (b) of Section 2062.01 of the Code.

   (a) The exempt business must make the payment of the amount of the contribution thus deducted and withheld through the Unified System of Internal Revenue ("SURI"), Government of Puerto Rico Internal Revenue Collection, in the Bureau of Collections or office designated for such purposes of the Department of the Treasury, or in any of the banking institutions designated as depositories of public funds and that has been authorized by the Secretary of the Treasury to receive such contribution, as provided in Section 6080.07 of the Puerto Rico Internal Revenue Code. The contribution must
be deposited no later than the fifteenth day following the close of the calendar month in which it was deducted and withheld. The obligation to deduct, withhold at source and deposit the contribution shall apply to the exempt business and any person having control, receipt, custody, disposition or payment of the amounts subject to the contribution imposed in paragraph (1) or (2) of paragraph (b) of Section 2062.01 of the Code.

**Article 2062.01(c)-1. - Taxation of Income from Eligible Investments**

(a) An exempt business that holds a Decree issued under Chapter 6 of Subtitle B of the Code shall enjoy a full exemption on the Income from Eligible Investments described in paragraph (a)(3) of Section 1020.06 of the Code. The expiration, renegotiation, or conversion of the Decree or other grant of incentives by the investing entity or the issuing entity, as the case may be, shall not prevent the accrued income from the eligible investment from being treated as Income from Eligible Investments under the Code for the remaining period of the investment as provided in subsection (c) of Section 2062.01 of the Code.

**Article 2062.01(d)-1. - Sale or Exchange of Shares or Assets.**

(a) Gains realized on the sale, exchange or other disposition of Shares of businesses that are or have been Exempt Businesses or that are or have been part of Exempt Businesses interests in joint ventures and similar entities comprised of various corporations, partnerships, individuals or combinations thereof, that are or have been Exempt Businesses or that have been part of Exempt Businesses under this Chapter, and Shares of Entities that are in any way owned by the entities described above, shall be subject to the provisions contained in paragraph (1) of this section upon such sale, exchange or other disposition, and any subsequent distribution of such proceeds, whether as a dividend or as a distribution in liquidation, shall be exempt from further taxation.

(1) **During the Exemption Period.** - The gain on a sale or exchange of shares or all or substantially all of the assets used in the exempt operations of a business that has a Decree granted under Chapter 6 of Subtitle B of the Code, that is made during its exemption period and that would have been subject to income tax under the Puerto Rico Internal Revenue Code, shall be subject to a four percent (4%) tax on the amount of the gain made, if any, in place of any other tax imposed by the Puerto Rico Internal Revenue Code. Any loss on the sale or exchange of such shares or assets will be recognized under the provisions of the Puerto Rico Internal Revenue Code. If an Entity conducts an Exempt Business and other operations not covered by a Decree and a shareholder or partner sells or swaps the shares in such Entity, the four
percent (4%) contribution will apply only to the profit made by the shareholder or partner in such sale or swap that is attributable to the operations of the Exempt Business conducted by the Entity. According to Section 1034.02(b)(1)(B) of the Puerto Rico Internal Revenue Code, the adjusted basis for determining the gain or loss realized by the exempt business on the sale or exchange of property sold by the Exempt Business shall be adjusted taking into consideration the depreciation or amortization of the property under Section 1033.07 of the Puerto Rico Internal Revenue Code. However, in those cases where the Exempt Business has claimed the deduction under Section 2062.06 of the Code, the basis will be adjusted by the claimed deduction. The recognition of any loss on the sale or exchange of such shares or assets shall be made under the provisions of the Code. In addition, the gain realized by an Exempt Business on the sale or exchange of all or substantially all of the assets used in the exempt operations during a taxable year for which it has an election in effect under Section 2011.05 of the Code, shall be subject to income tax under the provisions of the Puerto Rico Internal Revenue Code, at the tax rates provided by the Puerto Rico Internal Revenue Code.

(A) The provisions of paragraph (1) are illustrated by the following examples.

**Example 1.**- M Corporation sells to P Corporation all assets used in its covered operation under a Decree under Chapter 6 of Subtitle B of the Code. The assets sold consist of accounts receivable, inventory, machinery and equipment. "M" elected, under the provisions of Section 2062.06 of the Code, to claim a deduction for the amount of its investment in machinery and equipment. The tax basis of all assets sold is $1,100,000 without considering the adjustment as a consequence of the election under Section 2062.06 of the Code, as provided in Section 1034.02(b)(1)(B) of the Puerto Rico Internal Revenue Code. The excess depreciation claimed on the income tax return under Section 2062.06 of the Code on the depreciation of such assets using the straight-line method is $600,000. Such $600,000 is reflected as a recovery of depreciation subject to the rate applicable to the exempt business under the tax incentive law of such exempt business, in this case, four percent (4%). "M" shall recognize a gain of $800,000 ($1,900,000 - 1,100,000), which shall be subject to the four percent (4%) rate set forth in paragraph (2) of Section 2062.01(d) of the Code.

**Example 2.**- Shareholder "R", a bona fide resident of Puerto Rico, sells in Puerto Rico all the issued and outstanding shares of Corporation "C",...
all of whose operations are covered by a Decree under Chapter 6 of Subtitle B of the Code. As of the date of sale of the shares, "C" has accumulated profits and benefits of $3,000,000. The sale price of the shares is $4,000,000 and the basis of the shares for "R" is $500,000. For purposes of determining the gain on the sale of the shares, the adjusted basis of the shares is $3,500,000 ($500,000 + $3,000,000), according to Section 2062.01(d)(2)(iv) of the Code and paragraph (4) of this Article. The gain realized and recognized by "R" in the transaction is $500,000 ($4,000,000 - $3,500,000), which will be subject to a four percent (4%) tax rate.

Example 3. - The same facts as in Example 2 are assumed, except that "R" was not a resident of Puerto Rico at the time of the sale. In that case, if the sale is of shares of a corporation, the sale does not generate income from sources in Puerto Rico, so it is not subject to taxation in Puerto Rico. However, if the sale is in the interest of a corporation, the income will be classified under the provisions of Section 1035.08 of the Puerto Rico Internal Revenue Code.

(2) After the End Date of the Exemption Period. - The gain on a sale or exchange of shares or of all or substantially all of the assets used in the exempt operations of a business that has a Decree granted under Chapter 6 of Subtitle B of the Code that is made after the date of termination of the exemption and that would have been subject to income tax under the Puerto Rico Internal Revenue Code, shall be subject to the four percent (4%) tax provided in Section 2062.01(d)(2) of the Code. However, the above contribution shall only apply up to the amount of the value of the shares or substantially all of the assets on the Corporation's books as of the date of termination of the exemption period, reduced by the number of exempt distributions received on the same shares after such date, less the basis of such shares or substantially all of the assets. Any remaining gain or loss, if any, will be recognized under the provisions of the Puerto Rico Internal Revenue Code in effect on the date of the sale or exchange.

If an Entity conducted an Exempt Business and other transactions not covered by a Decree and a shareholder or partner sells or exchanges the shares in such Entity after the date of termination of the exemption, the contribution of four percent (4%) shall be applicable only concerning the gain made by the shareholder or partner in such sale or exchange that is attributable to the value of the transactions of the Exempt Business carried out by the Entity at the date of termination of the exemption period, reduced by the number of exempt
distributions received on the same shares after such date, less the basis of such shares attributable to such value.

(A) The provisions of paragraph (2) are illustrated by the following example:

**Example 1.** - Shareholder "B" owns all the issued and outstanding shares of Corporation "R", all of whose operations are covered by a Decree under Chapter 6 of Subtitle B of the Code. At the time of the expiration of the Decree, B's shares had a book value of $4,000,000 and the basis for B is $500,000 and R had retained earnings and benefits of 3,000,000. After the expiration of the Decree, B receives a dividend of $400,000, leaving a balance of $2,600,000 of retained earnings and benefits covered by the Decree under Chapter 6 of Subtitle B of the Code. Six months later, B sells all his shares of R. The sale price of the shares is $4,500,000 and the basis of the shares for "R" is $500,000. For purposes of determining the gain on the sale of the shares, the adjusted basis of the shares is $3,100,000 ($500,000 + 2,600,000). The total gain realized and recognized by "B" in the transaction is $1,400,000 ($4,500,000 - 3,100,000), of which $900,000 ($4,000,000 - 3,100,000) will be subject to the four percent (4%) tax rate under the Code, while the remaining $500,000 will be taxed according to the provisions of the Puerto Rico Internal Revenue Code in effect on the date of the sale.

(3) **Exempt Exchanges.** - Gains or losses on stock exchanges that do not result in taxable events because they are exempt reorganizations will be treated under the provisions of the Puerto Rico Internal Revenue Code in effect on the date of the exchange.

(4) **Determination of Bases for Sale or Exchange of Shares** - The basis of the shares, interests or assets of Exempt Businesses under Chapter 6 of Subtitle B of the Code in the sale or exchange thereof shall be determined under the applicable provisions of the Puerto Rico Internal Revenue Code in effect at the time of the sale or exchange. It is provided that, for purposes of determining the profit, said bases shall be increased by the amount of the profits and benefits of the operations covered by the Decree issued under Chapter 6 of Subtitle B of the Code accumulated at the date of the sale.

(A) The provisions of this paragraph (4) are illustrated by the following examples.

**Example 1.** - Shareholder "J" owns all the issued and outstanding shares of Corporation "Z", whose tax base is $100,000. "J" wishes to sell the shares of Z. The profits and benefits from the operations covered by
the Decree accrued on the date of the sale are $250,000. J's basis in the Z shares for purposes of this clause shall be $350,000.

**Example 2.** - B Corporation sells to A Corporation all assets (net of debt) used in its covered operation under a Decree under Chapter 6 of Subtitle B of the Code. The assets sold consist of accounts receivable, inventory, machinery and equipment. At the time of sale "B" has accumulated profits and benefits of $3,000,000. The tax base of all net assets sold is $1,100,000. The tax basis of all net assets sold is $1,100,000. The sale price of all net assets was $3,900,000. "B" will recognize a gain of $2,800,000 ($3,900,000 - 1,100,000), which will be subject to the four percent (4%) rate set forth in paragraph (2) of Section 2062.01(d) of the Code. Accumulated earnings and profits of $3,000,000 in the case of the sale of assets do not increase the asset base.

(5) For purposes of paragraph (2) of subsection (d) of Section 2062.01 of the Code, the term "substantially all of the assets" shall mean those assets of the Exempt Business which represent not less than eighty percent (80%) of the book value of the assets used by the Exempt Business in the exempt transaction at the time of sale of the assets. For these purposes, assets consisting of cash and liquid investments of the Exempt Business shall not be taken into consideration.

(A) The provisions of this paragraph (5) are illustrated by the following examples.

**Example 1.** - The S Corporation has a Decree under Chapter 6 of Subtitle B of the Code and all of its activities are covered by the Decree. "S sells its assets, which at the time of sale are: accounts receivable, inventory, machinery and a building with a book value of $250,000, $250,000, $500,000 and $2,000,000, respectively. The building has a debt with a balance at the time of sale of $50,000, which will be assumed by the buyer. "S" sold only the machinery and the building ($500,000 + 2,000,000). S shall be deemed to have sold "substantially all the assets" for purposes of this paragraph because assets with a carrying value over eighty percent (80%) of the carrying value of all the assets at the time of sale ($2,500,000 out of $3,000,000) were sold.

**Example 2.** - The same facts as in Example 1 are assumed, except that only the building is sold. S will be deemed not to have sold "substantially all of the assets" for purposes of this paragraph because assets with a carrying value of less than eighty percent (80%) of the
book value of all the assets at the time of sale ($2,000,000 out of $3,000,000) were sold.

**Article 2062.01(e)-1. - Liquidation.**

(a) **General rule.** - No income tax shall be imposed or collected on the transferor or transferee to the total liquidation, as provided in Section 1034.04(b)(6) of the Puerto Rico Internal Revenue Code, of an Exempt Business or an entity that is part of an Exempt Business under Chapter 6 of Subtitle B of the Code, made on or before the expiration of its Decree, provided that the following requirements are met

1. All property distributed in liquidation is received by the transferee in accordance with a liquidation plan on or before the expiration date of the Decree; and
2. The distribution in liquidation by the assignor, either at one time or from time to time, is carried out by the assignor in cancellation or complete redemption of all its share capital.
3. The assignee’s basis in the property received in a settlement shall be equal to the adjusted basis the Exempt Business had in such property immediately before its settlement. In addition, and for purposes of Section 2062.01 of the Code, a Corporation or partnership participating in a partnership that is an Exempt Business shall, in turn, be considered an Exempt Business.

(A) The provisions of this section are illustrated with the following examples.

(i) **Example 1.** - G Corporation (the "Assignor") has a Decree under Chapter 6 of Subtitle B of the Code. Shareholder A is the sole shareholder of G. G approved a plan of liquidation effective December 31, 2019. All the assets held by G at that date consist of accounts receivable, inventory, machinery and a building. "G does not have any debts at the time of the liquidation.

The market value of the assets is greater than the adjusted basis of the assets.

On December 31, 2019, G distributes all its assets to A in accordance with the liquidation plan. Any gain realized by the shareholder will not be recognized and, under the provisions of Chapter 6 of Subtitle B of the Code, no income tax will be imposed or collected on the shareholder for such gain. Likewise, no contribution shall be imposed on G as a result of the liquidation.
The base of the assets received in the liquidation, in the hands of the shareholder, will be equal to the adjusted base of "G" in those assets immediately before the liquidation.

(ii) Example 2. - The same facts as in Example 1 are assumed, except that the shareholder is the "C" Corporation (the "Assignee") which owns the number of shares required by Section 1034.04(b)(6) of the Puerto Rico Internal Revenue Code.

According to Code Section 6060.01, the provisions of Section 1034.04(b)(6) of the Internal Revenue Code apply to this settlement, on a supplemental basis. The result of the application of said Section and paragraph (e) of Section 2062.01 of the Code is as follows:

1. The Assignor shall not recognize gain in the distribution of its assets in total liquidation under Section 1034.04(q) of the Puerto Rico Internal Revenue Code, nor shall any tax be imposed on it under paragraph (e) of Section 2062.01 of the Code.

2. Any gain made by the Assignee shall not be recognized under Section 1034.04(b)(6) of the Internal Revenue Code, nor shall any contribution be imposed thereon under Section 2062.01(e) of the Code. In addition, the Assignee shall receive the Assignor's assets on a basis equal to the Assignor's assets on the date of liquidation.

3. The profits and benefits of industrial development income of the Assignor received by the Assignee as part of the total liquidation of the Assignor will maintain their character as profits and benefits of Industrial Development Income in the hands of the Assignee and any subsequent distribution of such profits and benefits by the Assignee will be exempt from income tax.

(iii) Example 3. - The same facts as in Example 1 are assumed, except that the shareholders (the "Assigenees") are the "A" and "B" Corporations that each own fifty percent (50%) of the voting shares.

The consequences of the settlement for all parties will be the same as those indicated in Example 1.

(b) Liquidation of Assignors with Revoked Decrees. - If the Assignor's Decree is revoked before its expiration under Section 6020.09 of the Code concerning
permissible revocations, the accumulated surplus of Industrial Development Income as of the effective date of the revocation may be transferred to the Assignee at any time thereafter, subject to the provisions of paragraph (d). In cases of mandatory revocation, the accumulated surplus will be subject to taxation under the Puerto Rico Internal Revenue Code.

The voluntary surrender of a Decree before its expiration shall affect that such surrender is a permissible revocation.

(1) The provisions of this section are illustrated with the following examples.

(A) **Example 1.** - The L Corporation (the "Assignor") has an Decree under Chapter 6 of Subtitle B of the Code until December 15, 2034, when its Decree is permissibly revoked, as outlined in paragraph (1) of subsection (a) of Section 6020.09 of the Code. T Corporation (the "Assignee") is the sole shareholder of L Corporation and L Corporation owns the number of shares required by Section 1034.04(b)(6) of the Internal Revenue Code. "L" approved a plan of liquidation effective December 31, 2034. The assets it owns as of that date consist of accounts receivable, inventory, machinery and a building. "L does not have any debts at the time of the liquidation.

According to Code Section 6060.01, the provisions of Section 1034.04(b)(6) of the Internal Revenue Code apply to this settlement, on a supplemental basis. Under that Section and to subsection (e) of Section 2062.01 of the Code, the Assignor shall not be recognized as having any gain on the distribution of its assets in total liquidation under Section 1034.04(q) of the Internal Revenue Code, nor shall any tax be imposed on it under paragraph (1) of subsection (e) of Section 2062.01 of the Code.

Any gain made by the Assignee shall not be recognized under Section 1034.04(b)(6) of the Puerto Rico Internal Revenue Code, nor shall any contribution be imposed thereon under paragraph (e) of Section 2062.01 of the Code. In addition, the Assignee shall receive the Assignor's assets on a basis equal to the Assignor's assets on the date of liquidation.

As part of the liquidation, the Assignee shall receive the profits and benefits of the Assignor generated from its Industrial Development Income, which may be distributed subject to the provisions of the Code by the Assignee. In addition, the Assignee will receive the profits and benefits of the Assignor generated from its non-exempt activities which will be subject to the provisions of the Code at the time of their distribution.
Example 2. - The same facts as in Example 1 are assumed, except that revocation of the Decree is mandatory, outlined in paragraph (2) of Section 6020.09(a) of the Code. In these cases, all profits and benefits transferred to the Assignee will be taxed under the provisions of the Puerto Rico Internal Revenue Code.

Example 3. - The S Corporation (the "Assignor") has a Decree under Chapter 6 of Subtitle B of the Code until December 31, 2034, when its Decree was mandatorily revoked, as provided in paragraph (2) of section 6020.09(a) of the Code. Shareholder B is the only shareholder of S. S approved a liquidation plan effective December 31, 2035. The assets it holds at that date consist of accounts receivable, inventory, machinery and a building. "S has no debts at the time of the liquidation. The market value of the assets is higher than their adjusted basis. On December 31, 2035, S distributes all its assets to its shareholder in accordance with the liquidation plan. Any gain realized by the shareholder and the Assignor will be recognized and taxed under the provisions of the Puerto Rico Internal Revenue Code.

Liquidations after the Expiration of the Decree. - After the expiration of the Decree of the assignor, the assignor may transfer to the assignee the profits and benefits of accumulated Industrial Development Income that has been accrued during the period of effectiveness of the Decree, subject to the provisions of paragraph (a).

1) The provisions of this section are illustrated by the following example:

Example. - K Corporation (the "Assignor") has a Decree under Chapter 6 of Subtitle B of the Code until December 15, 2034, when its Decree expires. U Corporation (the "Assignor") is the only shareholder of K and it owns the number of shares required by Section 1034.04(b)(6) of the Puerto Rico Internal Revenue Code. "K approved a liquidation plan effective December 31, 2034. The assets it owns as of that date consist of accounts receivable, inventory, machinery and a building. "K does not have any debts at the time of the liquidation. According to Section 6060.01 of the Code, the provisions of Section 1034.04(b)(6) of the Puerto Rico Internal Revenue Code apply to this settlement, on a supplementary basis. The result of the application of said Section and paragraph (d) of Section 2062.01 of the Code is as follows:

i) The Assignor does not recognize gain in the distribution of its assets in total liquidation under Section 1034.04(q) of the Puerto Rico Internal Revenue Code, nor is any contribution
imposed on it under paragraph (e) of Section 2062.01 of the Code.

(ii) Any gain made by the Assignee shall not be recognized under Section 1034.04(b)(6) of the Internal Revenue Code, nor shall any contribution be imposed thereon under paragraph (e) of Section 2062.01 of the Code. In addition, the Assignee shall receive the Assignor's assets on a basis equal to the Assignor's assets on the date of liquidation.

(iii) As part of the liquidation, the Assignee shall receive the profits and benefits of the Assignor generated from its Industrial Development Income which may be distributed subject to the provisions of Chapter 6 of Subtitle B of the Code by the Assignee. In addition, the Assignee shall receive the profits and benefits of the Assignor generated from its non-exempt activities which shall be subject to the provisions of the Code at the time of their distribution.

(d) **Liquidation of Assignors with Exempt and Non-Exempt Activities.** – If the Assignor carries out exempt and non-exempt activities, the Assignor may transfer to the Assignee the profits and benefits of Industrial Development Income accrued under Chapter 6 of Subtitle B of the Code and the property dedicated to industrial development under the latter as part of its total liquidation, subject to the provisions of paragraph (a). The accumulated profits and benefits that are not from Industrial Development Income and the property that is not dedicated to industrial development will be distributed under the provisions of the Puerto Rico Internal Revenue Code.

(1) The provisions of this section are illustrated with the following examples.

(A) **Example.** - Corporation "J" (the "Assignor") has a Decree under Chapter 6 of Subtitle B of the Code. In addition, "J" carries out non-exempt operations. W Corporation (the "Assignor") is the sole shareholder of J and owns the number of shares required by Section 1034.04(b)(6) of the Internal Revenue Code. "J approved a plan of liquidation effective December 31, 2029. The assets it owns as of that date consist of accounts receivable, inventory, machinery and a building. "J does not have any debts at the time of the liquidation.

According to Code Section 6060.01, the provisions of Section 1034.04(b)(6) of the Internal Revenue Code apply to this settlement. The result of the application of that Section and paragraph (e) of Section 2062.01 of the Code is as follows:

(i) The Assignor shall not recognize gain in the distribution of its assets in full settlement under Section 1034.04(q) of the
Internal Revenue Code, nor is any contribution imposed on it under paragraph (e) of Section 2062.01 of the Code.

(ii) Any gain made by the Assignee shall not be recognized under Section 1034.04(b)(6) of the Internal Revenue Code, nor shall any contribution be imposed thereon under paragraph (e) of Section 2062.01 of the Code. In addition, the Assignee shall receive the Assignor's assets on a basis equal to the Assignor's assets on the date of liquidation.

(iii) As part of the liquidation, the Assignee shall receive the profits and benefits of the Assignor generated from its Industrial Development Income which may be distributed subject to the provisions of Chapter 6 of Subtitle B of the Code by the Assignee. In addition, the Assignee shall receive the profits and benefits of the Assignor generated from its non-exempt activities which shall be subject to the provisions of the Internal Revenue Code at the time of their distribution.

Article 2062.01(g)-1. - Limitation of Benefits.

(a) The provisions of this section shall not apply to Exempt Businesses that are subject to the provisions of Section 2062.01(f) of the Code. If, as of the date of application for the incentives, according to the provisions of Chapter 6 of Subtitle B of the Code, an Eligible Business is engaged in the activity for which the benefits of Chapter 6 of Subtitle B of the Code are granted, the Eligible Business shall be entitled to the fixed rate of contribution on Industrial Development Income provided by Section 2062.01 of the Code only as to the increase in net income from such activity that it generates over the average net income of the last three (3) taxable years preceding the date of application. Such an average shall be considered as the "base period income" for purposes of this section. To the extent that the business has not been in operation for the entire prior three (3) year period, a shorter period may be considered for purposes of determining "base period income". However, a business that applies for a Decree within three hundred sixty-five (365) days of the date it began the activity for which it is applying for Code benefits shall not be subject to the benefit limitation provided in this Article 2062.01(g)-1 of these Regulations.

(1) To determine base period income, production and sales generated by any predecessor business to the applicant business will be taken into consideration. For these purposes, "predecessor business" shall include any person related, as defined in Section 1092.01(a)(3) of the Puerto Rico Internal Revenue Code, to the applicant business, even if it was not previously exempt and regardless of whether it was operating under another legal name, or under
other owners.

(2) The income attributable to the base period will be subject to the income tax rates provided by the Puerto Rico Internal Revenue Code. However, Exempt Businesses that already operated under Prior Incentive Laws will be taxed on their income attributable to their base period at the income tax rates provided in their prior Decree. The income tax resulting from the income attributable to the base period may not be reduced by the credits provided in Section 3020.01 and 2062.01(h) of the Code. The amount of net income subject to contribution under the Puerto Rico Internal Revenue Code according to Section 2062.01(g) of the Code constitutes Industrial Development Income. Therefore, current and liquidation distributions from Industrial Development Income described in the preceding articles shall be subject to the provisions of paragraph (b) of Section 2011.02 of the Code.

(3) The base period income shall be adjusted by reducing such amount by twenty-five percent (25%) annually until it is reduced to zero (0) for the fourth taxable year of application of the terms of the Decree under Chapter 6 of Subtitle B of the Code. For this purpose, consideration shall be given to those years for which the exempt business has made an election under Section 2011.05 of the Code.

(4) The provisions of this section are illustrated in the following examples.

(A) Example 1. - Corporation "E" is dedicated to the manufacture of drugs in Puerto Rico. This activity was an eligible activity under the Prior Incentive Laws.

"E" applies for tax exemption under Chapter 6 of Subtitle B of the Code on January 1, 2020. The Decree is granted on June 30, 2020 with an effective date for purposes of the January 1, 2020 flat rate of income tax.

"E" carried out such activity during the two (2) previous tax years ended December 31, 2018 and December 31, 2019. The net income for these tax years was $300,000 and $400,000, respectively, for an average of $350,000 per year. The base period income for the first tax year under the Decree will be $262,500, determined as follows:
The Industrial Development Income of "E" for the tax year ended December 31, 2020 is $1,000,000, determined without taking into consideration the special deduction of Section 2062.06 of the Code, which is $275,000, but granting the depreciation expense provided by the Puerto Rico Internal Revenue Code for the assets covered by such special deduction for $50,000.

Following the rules in this section, during the first "E" tax year, $512,500 will be subject to the applicable flat income tax rate provided in Section 2062.01 of the Code. The net income subject to taxation under the Puerto Rico Internal Revenue Code shall be $262,500, determined as follows:

### Determination of Base Period Income

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net income - December 31, 2018</td>
<td>$300,000</td>
</tr>
<tr>
<td>Net income - December 31, 2019</td>
<td>$400,000</td>
</tr>
<tr>
<td>Total, net income before an exemption request</td>
<td>$700,000</td>
</tr>
<tr>
<td>Divided by the number of periods</td>
<td>2</td>
</tr>
<tr>
<td>Income from the base period</td>
<td>$350,000</td>
</tr>
<tr>
<td>Reduction of the first year of contribution (25%)</td>
<td>(87,500)</td>
</tr>
<tr>
<td>Income from base period first year of contribution</td>
<td>$262,500</td>
</tr>
</tbody>
</table>

### Determination of Taxable Income

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net income before deduction of Section 2062.06 of the Code</td>
<td>$1,000,000</td>
</tr>
<tr>
<td>Less income from base period first year of contribution</td>
<td>(262,500)</td>
</tr>
<tr>
<td>Industrial Development income before adjustments</td>
<td>737,500</td>
</tr>
<tr>
<td>Plus adjustment for depreciation granted by the Internal Revenue Code</td>
<td>50,000</td>
</tr>
<tr>
<td>Less Special Deduction Code Section 2062.06</td>
<td>(275,000)</td>
</tr>
<tr>
<td>Industrial Development income subject to contribution under Section 2062.01 of the Code</td>
<td>512,500</td>
</tr>
<tr>
<td>Net income subject to taxation under the Internal Revenue Code</td>
<td>$262,500</td>
</tr>
</tbody>
</table>
(B) **Example 2.** - Corporation "I" is dedicated to the manufacture of drugs in Puerto Rico. This activity was an eligible activity under the Prior Incentive Laws.

"I" applies for tax exemption under Chapter 6 of Subtitle B of the Code on January 1, 2020. The Decree is granted on June 30, 2020 with an effective date for purposes of the January 1, 2020 flat rate of income tax.

Corporation "I" carried out such activity during the two (2) tax years ended December 31, 2018 and December 31, 2019. The net income for these tax years was $300,000 and $400,000, respectively, for an average of $350,000 per year. The base period income for the third tax year under the Decree will be $87,500.

<table>
<thead>
<tr>
<th><strong>Determination of Base Period Income</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Net income - December 31, 2018</td>
</tr>
<tr>
<td>Net income - December 31, 2019</td>
</tr>
<tr>
<td>Total net income before application for exemption</td>
</tr>
<tr>
<td>Divided by number of periods</td>
</tr>
<tr>
<td>Base period income</td>
</tr>
<tr>
<td>Reduction of third tax year (75%)</td>
</tr>
<tr>
<td>Income from base period third year of contribution</td>
</tr>
</tbody>
</table>

The Industrial Development Income of "I" for the taxable year ended December 31, 2022 is $1,000,000, determined without taking into consideration the special deduction of Section 2062.06 of the Code which is $275,000, but granting the depreciation expense provided by the Puerto Rico Internal Revenue Code on the assets covered by such special deduction for $50,000 and the deduction for a net loss on prior years' operations of $200,000, granted by the Puerto Rico Internal Revenue Code.

Following the rules of this section, during the third tax year of Corporation "I", $687,500 will be subject to the applicable fixed rate of income tax provided in Section 2062.01 of the Code. The net income subject to taxation under the Puerto Rico Internal Revenue Code shall be $87,500.
**Determination of Taxable Income**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net income before deduction of Section 2062.06 of the Code</td>
<td>$1,000,000</td>
</tr>
<tr>
<td>Less base period income from the third tax year</td>
<td>(87,000)</td>
</tr>
<tr>
<td>Industrial Development income before adjustments</td>
<td>912,500</td>
</tr>
<tr>
<td>Plus adjustment for depreciation granted by the Internal Revenue Code</td>
<td>50,000</td>
</tr>
<tr>
<td>Less Special Deduction, Code Section 2062.06</td>
<td>(275,000)</td>
</tr>
<tr>
<td>Industrial Development income subject to contribution under Section 2062.01</td>
<td>687,500</td>
</tr>
<tr>
<td>Net income subject to tax under the Puerto Rico Internal Revenue Code</td>
<td>$87,500</td>
</tr>
</tbody>
</table>

**Article 2062.02-1. - Commencement Date of Property Tax Exemption**

(a) The exemption period provided in paragraph (a) of Section 2062.02 of the Code for the real property and personal property exemption shall begin on January 1 following the date the Eligible Business begins the activities covered by the Decree.

(b) Where an Eligible Business has commenced exempt operations before the date of applying for the benefits of this Chapter, the exemption period provided in paragraph (a) of Section 2062.02 of the Code for the homestead exemption shall be the first (January 1) following the date the application for the tax exemption was filed under the Code.

**Article 2062.03-1. - Date of Commencement of Exemption from Municipal Patents and other Municipal Taxes.**

(a) The following provisions shall apply for purposes of the commencement date of the exemption from Municipal Patents and other Municipal Taxes provided in Section 2062.03 of the Code:

(1) The Exempt Business that has a Decree granted under Chapter 6 of Subtitle B of the Code will enjoy total exemption on the municipal taxes or patents applicable to the turnover of said exempt business during the semester of the fiscal year of the Government of Puerto Rico in which the exempt business begins operations in any municipality, according to the Municipal Patent Law. In addition, exempt businesses that have a Decree granted under Chapter 6 of Subtitle B of the Code will be exempt from municipal taxes or patents on the turnover during the two (2) semesters of the fiscal year or
fiscal years of the Government of Puerto Rico following the semester during which they begin operations.

(2) The period of the partial exemption provided in paragraph (a) of Section 2062.03 of the Code for purposes of the exemption of municipal patents and any other municipal taxes, shall begin on the first day of the first half of the fiscal year of the Government of Puerto Rico following the expiration of the period of the total exemption provided in paragraph (b) of Section 2062.03 of the Code.

(b) Exempt Businesses that have a Decree granted under Chapter 6 of Subtitle B of the Code, and their contractors and subcontractors, shall be exempt from any contribution, tax, duty, license, arbitration, fee or tariff imposed by any municipal ordinance on the construction of works to be used by such Exempt Business within a municipality, without it being understood that such contributions include the municipal patent imposed on the turnover of the contractor or subcontractor of the Exempt Business, during the term authorized by the Decree. The fact that the Exempt Business does not own the property it uses in its activity does not prevent it from enjoying this exemption.

(c) Eligible Investment Income, as that term is defined in paragraph (a), subparagraph (3) of Section 1020.06 of the Code, shall be exempt from municipal patents, excise taxes, and other municipal contributions.

(d) Any Exempt Business under Chapter 6 of Subtitle B of the Code or Prior Incentive Laws may waive the benefit of the five percent (5%) discount for prompt payment, as provided in Section 11 of the "Municipal Patent Law", or analogous provision in any successor law, and make full payment of its municipal patent on the date provided by such law. In the case of Exempt Businesses that choose to make the prompt payment and waive the discount, the prescription period for the appraisal and collection of the patent imposed under the "Municipal Patent Law" will be three (3) years from the date the Declaration on Turnover is filed, instead of the terms outlined in paragraphs (a) and (b) of Section 19 of the "Municipal Patent Law".

(e) Being arranged, that in the case of Exempt Businesses that have been operating in Commercial Scale before requesting the Decree under Chapter 6 of the Subtitle B of the Code, the date of the beginning of operations for the effect of municipal patents will begin the first day of the following semester to the date of filing this application of Decree.
Article 2062.05(e)-1. - Establishment of Commencement Dates and Tax Exemption Periods.

(a) The following provisions shall apply for purposes of the commencement date of operations and tax exemption periods for Businesses that have Decrees under Chapter 6 of Subtitle B of the Code.

(1) **General rule.** –

(A) The Exempt Business that has a Decree granted under Chapter 6 of Subtitle B of the Code shall notify the date of commencement of operations by filing an affidavit with the Incentive Bureau, under the terms outlined in the Decree granted. Otherwise, the Decree will be considered null and void. If applicable, the Exempt Business may include the notification of the date of commencement of operations in an affidavit expressing the unconditional acceptance of the Decree granted.

(B) The Exempt Business must begin operations on a commercial scale within one year from the date of signing the Concession, the term of which may be extended by the Incentive Bureau at the request of the Exempt Business for a good cause. No extensions extending the date of commencement of operations will be granted for a term longer than five (5) years from the date of approval of the Grant.

(2) **Start of Operations Date for Businesses that have not Started Operations.** –

(A) The date of commencement of operations for purposes of the fixed rate of income tax provided for in subsection (a) of Section 2062.01 of the Code may be the date of the first payroll for training or production of the exempt business under a Decree issued under Chapter 6 of Subtitle B of the Code or any date within two (2) years after the date of the first payroll.

(B) An Exempt Business that holds a Decree granted under Chapter 6 of Subtitle B of the Code may postpone the application of the fixed fee provided in Section 2062.01 of the Code for a period not to exceed two (2) years from the date of commencement of operations as set forth under the provisions of this Article. During the postponement period, such Exempt Business shall be subject to the tax rate applicable under Subtitle A of the Puerto Rico Internal Revenue Code.

(3) **Date of Commencement of Operations for Businesses that have begun operations.** –

(A) In the case of Exempt Businesses that have an Executive Decree issued under Chapter 6 of Subtitle B of the Code that has been operating on a
commercial scale before applying for benefits under Chapter 6 of Subtitle B of the Code, the date of commencement of operations for purposes of the fixed rate of income tax provided for in subsection (a) of Section 2062.01 of the Code shall be the date of filing of an application with the Incentive Bureau. Provided, that the commencement date for purposes of the fixed rate of income tax provided by Section 2062.01(a) of the Code, at the option of the Exempt Business, may be postponed for a period not to exceed two (2) years from the date of filing of the application with the Incentive Bureau.

(B) **Date of Commencement of Operations for Businesses that have Started Operations in one Municipality and Move or Begin Operations in another Municipality** - The effective date shall be the date of commencement of operations on a commercial scale in such municipality and shall apply for the remainder of the period granted to the Exempt Business.

(C) **Date of Commencement of Operations for Businesses that have discontinued their Decree.** - If an Exempt Business that has a Decree granted under Chapter 6 of Subtitle B of the Code has ceased operations and then wishes to resume them, the time it was out of operation shall not be discounted from its corresponding exemption period and it may enjoy the remaining exemption period while its Decree is in effect, provided that the DDEC Secretary determines that such cessation of operations has been for justified causes and that the reopening of such Exempt Business will be in the best social and economic interests of Puerto Rico.

(D) **Date of Start of Operations for Successor Businesses.** –

(i) When the Decree is granted under the provisions of Chapter 6 of Subtitle B of the Code while the business is enjoying the benefits of a Decree whose activity is substantially similar to that specified in the Decree in effect at the time the application is filed, the date of commencement of operations shall be any date within the tax year in which the application for exemption is filed or the first day of the following tax year, at the option of the Exempt Business. The semesters of total exemption in patents and property that are granted to the businesses with Decree will not be granted.
CHAPTER 7A. - INFRASTRUCTURE

SUBCHAPTER A. - RESERVED

SUBCHAPTER B. - TAX BENEFITS

Article 2072.01(a)(5)-1A. - Revenue Contribution.

(a) Fixed preferential rate of four percent (4%). - The income generated by an Eligible Business for the eligible activities described below will be subject to a preferential fixed rate of contribution on an income of four percent (4%), instead of any other contribution imposed by the Puerto Rico Internal Revenue Code, or any other law as long as they comply with the requirements applicable to their eligible activity:

(1) Income from Housing Projects under the "Assisted Living" Housing Project, for Elderly Persons and that meet the qualification criteria elaborated by the Code consistent with the definition of "Assisted Living" - When due to medical necessity and in the interest of their safety, they need personal or medical care other than that provided for in Law 244-2003, they will not be covered by the provisions of the Code and, therefore, the residence may not shelter such person under Law 244-2003. Likewise, the Elderly are not eligible if, due to their medical condition, they need to reside in long-term facilities covered by Law 94 of June 22, 1977, as amended, known as the "Elderly Facilities Law"; hospices that serve terminally ill patients; and services that serve Elderly persons with substantial limitations of a cognitive, physical, or other nature that greatly limit their self-sufficiency. The nursing home will make this determination in those cases where the safety, well-being, or comfort of the person may be adversely affected by the failure to adequately address the person's specific needs as a result of not conforming to the "Assisted Living" framework or to fully address the limitations of the person's need for highly skilled and complex medical and nursing services, such as those provided by certified providers or hospices. Consequently, if an Elderly Person, because of physiological, cognitive, or psychiatric conditions of substantial severity and disabling effects, needs intense, continuous and complex medical care, or cannot manage on his/her own a substantial portion of their treatment or sustain his/herself without the continuing assistance of another person, without risk to their safety, he/she may not be a resident of an Assisted Living housing project. Elderly persons who require highly skilled medical care and twenty-
four (24) hour medical attention are out of the reach of these housing projects. As a result, Elderly Persons, who initially meet the criteria outlined in these regulations, but later require services beyond the scope of services set forth in these regulations, may not continue to reside in the units.

Article 2072.02(b)-1A. - Contribution on Movable and Immovable Property.

(a) Social Interest Properties for Rent. –

(1) In general. - Multi-family Project Housing units that are rented to Low or Moderate Income Families and Middle-Class Housing, as such eligible activity is described in paragraph (2) of Section 2071.01 of the Code, shall be exempt from the payment of property tax by one hundred percent (100%) during the exemption period provided in paragraph (b) of Section 2072.04 of the Code, subject to

(A) The requirements outlined in paragraph (a) of Section 2073.02 of the Code are met.

(B) The rent for each housing unit reflects a reduction equal to the total amount of property tax the owner would be required to pay if the tax exemption provided herein did not apply. If the tax exemption is suspended because the family no longer qualifies for income, the owner may not increase the family's rent by an amount that exceeds the amount of the property tax applicable to the unit, it shall be the owner's responsibility to make the proportional payment of such tax to the CRIM beginning with the tax year beginning January 1 of the subsequent year in which the family experiences the increase in income and becomes ineligible for the Program. Under no circumstances may a project owner initiate eviction proceeding against a tenant for reasons of income ineligibility.
SUBCHAPTER C. - REQUIREMENTS FOR THE GRANTING OF THE EXEMPTION

Article 2073.01(b)-1A. - Requirement for Applications for Infrastructure Decrees.

(a) Any person may apply for the benefits for Eligible Infrastructure Businesses that are under Chapter 7 of Subtitle B of the Code, as long as they comply with the eligibility requirements outlined in paragraphs (1), (2), (3), (4), (5) of Section 2071.01 of the Code and with any other criteria that the DDEC Secretary establishes, through an administrative order, circular letter or any other communication of a general nature, including as evaluation criteria the contribution that the Eligible Business makes to the economic development of Puerto Rico. In addition, the evaluation criteria must take into consideration the following guiding principles:

1. **Jobs.** - The Infrastructure Activity and the Exempt Business encourage the creation of new jobs. In addition, consideration will be given to whether the Exempt Business pays its employees above the federal minimum wage level set by the Fair Labor Standards Act.

2. **Harmonious Integration.** - The design and conceptual planning of the Infrastructure Activity and the Exempt Business will be carried out, primarily, taking into consideration the environmental, geographical and physical aspects, as well as the available and abundant materials and products of the place where it will be developed. Safe development will be ensured to prevent catastrophic damage from probable natural disasters.

3. **Commitment to Economic Activity.** - The Exempt Business will acquire, to the extent possible, raw materials and manufactured products in Puerto Rico for the construction, maintenance, renovation or expansion of its physical facilities. If the purchase of such products is not financially justified when taking into consideration criteria of quality, quantity, price or availability of such products in Puerto Rico, the DDEC Secretary may exempt it from this requirement and issue a certificate to that effect.

4. **Commitment to Agriculture.** - The Exempt Business will acquire, to the extent possible, agricultural products from Puerto Rico to be used in its operation. If the purchase of such products is not financially justified when taking into consideration criteria of quality, quantity, price or availability in Puerto Rico, the DDEC Secretary may exempt it from this requirement and issue a certificate to that effect.

5. **Knowledge Transfer.** - The Exempt Business must, as far as possible, acquire its services from professionals or companies with a presence in Puerto Rico. However, if this is not possible due to criteria of availability, experience, specificity, skill or any other valid reason recognized by the
DDEC Secretary, the Exempt Business may acquire such services through an intermediary with a presence in Puerto Rico, which will contract directly with the service provider chosen by the Exempt Business, so that the requested services are provided.

By "services" it will be understood, the hiring of works of
(A) Surveying, production of construction drawings, as well as engineering, architectural and related services;
(B) Construction and everything related to this sector;
(C) Economic, environmental, technological, scientific, managerial, marketing, human resources, IT and auditing consultancy;
(D) Advertising, public relations, commercial art and graphic services
(E) Security or maintenance of your facilities;
(F) Any other professional field that involves talent, knowledge, academic preparation or technical experience that is not available in Puerto Rico.

The reasons and grounds justifying the special need must be presented to the DDEC Secretary with their consent.

(6) **Financial Commitment.** - The Exempt Business must demonstrate that they deposit a considerable amount of income from their economic activity and use the services of banking institutions or cooperatives with a presence in Puerto Rico.

(7) The DDEC Secretary, in consultation with the Secretary of Housing, shall be the officer responsible for verifying and ensuring compliance of Exempt Businesses with the eligibility requirements outlined in this Article and those related to the eligible activities referred to in paragraphs (1), (2), (3), (4), (5) of Section 2071.01 of the Code. If the Exempt Business partially complies with the requirements outlined in this Article, it shall be incumbent upon the DDEC Secretary to establish a formula that allows the quantification of the above factors and to subtract the unmet requirement from the total percentage of the specific incentive, to obtain the exact figure of the percentage of the benefit in question. In this case, Eligible Businesses must apply for the Incentive Award through the extraordinary procedure, according to Code Section 6020.01(e).

**Article 2073.02(a)-1A. - Requirement for Lease Income Exemption of Socially Interest Property.**

(a) **In general.** - A person may receive the benefits provided in paragraph (3) of subsection (a) of Section 2072.01 of the Code, over the fixed prime rate of four percent (4%) related to the rental income received by an owner of a Multi-Family
Landlord Project, Section 2072(b.02 of the Code regarding the one hundred percent (100%) property tax exemption on Multi-Family Project housing units that are rented to Low and Moderate Income Families, Section 2072(a). Code Section 2072.04(b) regarding the maximum tax period of fifteen (15) years, provided you file with the DDEC Secretary an application for exemption and meet the following requirements:

1) Prove through the presentation of documents and records that the capital invested in the construction or rehabilitation of the Multi-Family Project, as the case may be, is the product of a bona fide transaction. To this end, the owner of the Multi-Family Project will present certification to this effect from the financial institution that has provided the funds for the project and an affidavit on its behalf. This requirement shall be deemed to have been met with the submission of the Certification of Eligibility from the Secretary of Housing.

2) The rental fee for the Rental Housing units shall not exceed an amount determined by the DDEC Secretary, in consultation with the Secretary of Housing, to be adequate for the owner of the Rental Housing units to cover the costs of management and maintenance of the rental property, to receive a return on his capital investment, and to cover his other obligations as an owner, within the parameters outlined in these Regulations. This requirement shall be deemed to have been met with the presentation of the Certification of Eligibility from the Secretary of Housing.

3) Income on which tax exemption is claimed is derived from the rent paid by Low- or Moderate-Income Families.

4) The unit rented within the Multifamily Housing Project or the family occupying such unit does not receive direct subsidy for the payment of the rent from the Government of Puerto Rico or the Government of the United States of America.

5) The construction or rehabilitation of housing units to which rental income is attributed that began after the Code was passed.
Article 2073.02(a)-2A. - Requirement for Application for Lease Exemption of Social Interest Property.

(a) Conditions for the Granting of the Tax Exemption - For purposes of the tax exemption granted by Section 2073.02 of the Code, the rental rate shall be preliminarily determined to be reasonable for the Eligible Business and the Low- or Moderate-Income Family.

(1) The rent for housing units will be evaluated by the Housing Department in light of the criteria mentioned in this article. The Secretary of Housing shall issue the Certification of Eligibility, which shall include a recommendation for or against the rent. Thereafter, the rent may be re-evaluated annually by the DDEC Secretary, in consultation with the Secretary of Housing, for as long as the project owner enjoys the benefit of the tax exemption, taking into consideration the number of rooms and the location of the property and any other factors deemed necessary. Under no circumstances may a project owner initiate eviction proceeding against a tenant for reasons of income ineligibility.

(2) Maximum income. - The Owner shall submit the amount he determines to be the applicable rent for the Housing Units for the consideration and approval of the DDEC and Housing Secretary, provided that such amount shall not exceed the applicable Maximum Rent for the Housing Units. Such Maximum Rent shall be equal to thirty percent (30%) of the amount determined by HUD as the low-income limit for the area in which the public housing project is located and adjusted for the size of the household, according to the Maximum Income Table published annually by HUD at the following link:

https://www.huduser.gov/portal/datasets/il.html

For purposes of determining the size of the family unit, it is understood that each Housing Unit may accommodate up to a maximum of two (2) persons per room. For example: a one (1) bedroom Housing Unit shall house up to a maximum of two (2) persons; a two (2) bedroom Housing Unit shall house up to a maximum of four (4) persons, and a three (3) bedroom Housing Unit shall house up to a maximum of six (6) persons.

(3) Examples of Maximum Income determination. –

(A) One-room housing unit located in San Juan based on U.S. Department of Housing (HUD) approved 2020 limits:

   (i) 1 room x 2 people = 2 Family Size

   (ii) The low-income limit for a family of two (2) in San Juan according to the Maximum Income Table is $19,800.

   (iii) 30% of the low-income limit = $3,960 ($19,800 x .30)
(iv) Maximum annual rent for that Housing Unit is $3,960.
(v) Maximum monthly rent for that Housing Unit = $330 ($3,960 / 12).

(B) Two (2) bedroom housing unit located in San Juan:
(i) 2 rooms x 2 people = 4 Family Size
(ii) The low-income limit for a family of 4 in San Juan according to the Maximum Income Table is $24,700.
(iii) 30% of the low-income limit = $7,410 ($24,700 x .30)
(iv) Maximum annual rent for that Housing Unit is $7,410.
(v) Maximum monthly rent for that Housing Unit = $617.50 ($7,410 / 12).

Article 2073.03(a)-1A. - Requirements, Senior Housing Lease Exemption.

(a) In general. - A person may receive the benefits provided in paragraph (1) of subsection (b) of Section 2072.01 of the Code, concerning the four percent (4%) fixed rate of preferential income tax applicable to rental income from property leased to the Elderly, Section 2072(c).02 of the Code, relating to the one hundred percent (100%) exemption from personal property and real estate taxes on property leased to low-income Senior Citizens, Section 2072(b).03 of the Code relating to the ninety percent (90%) exemption on municipal patent, any other municipal tax or duty applicable to income generated by construction or rehabilitation projects of rental housing for the Elderly, subsection (c) of Section 2072.04 of the Code relating to the maximum tax period of fifteen (15) years, provided

(1) The construction or rehabilitation of the housing units for the lease began after the effective date of the Code.

(2) The rental rate for the leased housing units shall not exceed an amount determined by the DDEC Secretary, in consultation with the Secretary of Housing, to be adequate for the owner of the housing units to cover the costs of management and maintenance of the leased property, to receive a return on his or her capital investment, and to cover his or her other obligations as an owner, based on documents submitted as part of the Application for Exemption. For this purpose, the Secretary of Housing shall provide a Certification of Eligibility in which he shall record his favorable determination regarding the rent.

(3) The income on which tax exemption is claimed is derived from the rent paid by the Elderly.

(b) Conditions for the Granting of the Tax Exemption - The lease fee will be preliminarily determined to be reasonable for the Eligible Business and the Senior Citizen. For this purpose, the Secretary of Housing shall issue the Certification of
Eligibility wherein he shall pass judgment on the reasonableness of the rent and issue his recommendation for or against it. In evaluating the maximum rent, the Fair Market Rent chart published by HUD for the applicable year shall be considered: https://www.huduser.gov/portal/datasets/fmr.html#2020.

Thereafter, the rent may be re-evaluated annually by the DDEC Secretary, in consultation with the Secretary of Housing, as long as the project owner enjoys the benefit of the tax exemption, taking into consideration the number of rooms and the location of the property and any other factors deemed necessary. Under no circumstances may a project owner initiate eviction proceeding against a tenant for reasons of income ineligibility.

Article 2073.04(a)-1A. - Requirement, Exemption on Income from Sale of Socially Interest Property.

(a) General rule. - A person may receive the benefits provided for in paragraph (2) of subsection (a) of Section 2072.01 of the Code relating to the fixed rate of four percent (4%) of income tax imposed on income received as a result of the sale of community property, provided that

(1) Construction or rehabilitation of the Housing units for sale began after the effective date of the Code;

(2) The buyer of the Housing unit is either a Low- or Moderate-Income Family or a Middle-Class Family, and is certified as eligible by the mortgagee originating the permanent mortgage financing of the Housing;

(3) As a general rule, in the case of Social Interest and Middle-Class Housing, for sale or rent, the income on which the tax exemption is claimed (exempt income) is the product of earnings that do not exceed a maximum of fifteen percent (15%) over the sales price of each unit, in cases of housing for sale and over the fair market value in the case of housing for rent per housing unit, derived from the sale of Social Interest Housing and/or Middle-Class units, and that such profits have a direct relation exclusively with the Social Interest Housing and/or Middle-Class project to which such income is attributed. As a special rule, it is provided that, subject to the provisions of Chapter 7 of Subtitle B of the Code, when a Social Interest Housing and Middle-Class Housing project is developed, for sale or rent, in an urban center or when it can be credited that an Investment in Housing Infrastructure or Infrastructure of Regional or Municipal Impact is being carried out, the income on which the tax exemption is claimed (exempt income) is the product of earnings that do not exceed a maximum of twenty percent (20%) over the sales price of each unit, in cases of housing for sale and over the fair market value in the case of housing for rent per housing unit, derived from the sale of Social
Interest Housing and/or Middle-Class units, and that such earnings are directly related exclusively to the Social Interest Housing and/or Middle-Class project to which such income is attributed. For purposes of calculating the exemption provided under Chapter 7 of Subtitle B of the Code, only those extraordinary investments in Housing Infrastructure or Regional or Municipal Impact Infrastructure, as approved by the DDEC Secretary, in consultation with the Department of Housing, shall be taken into consideration.

(4) In the case of a tax exemption for the income generated by the sale of residences to low or moderate-income individuals or families, a report of the final cost of the project for which the exemption is requested shall be submitted to the DDEC Secretary with the detail required by this Officer, certified by a Certified Public Accountant. If the project offers different types of housing for sale, the report required above will identify them and provide information on the cost of each one. The owner of the project will report the sales price of the homes.

(5) The owner shall submit to the DDEC Secretary all documents and information required in Sections 6020.01(b)(2)-1 and 2073.06(a)(6)-1A.

(b) Determination of Maximum Sale Price. - The DDEC Secretary, in consultation with the Secretary of Housing, shall use the following factors to determine the maximum sale price of the units. The Secretary of Housing shall issue his recommendation through the Certification of Project Eligibility considering the factors listed below for the Maximum Sale Price. The maximum sale price may not exceed the sum of the MAPCCF and the following elements or increase factors that apply, as the case may be

(1) Multifamily Housing will be added five percent (5%) of the Maximum Family Composition Benefit (MPCCF);
(2) Homes located in Urban Land, other than Urban Center, will be added fifteen percent (15%) of the MPCCF;
(3) Thirty percent (30%) of the MPCCF will be added to the Housing located in the Urban Center; and
(4) To the Houses located in Island Municipalities or of Greater Population Density a ten percent (10%) of the MPCCF will be added.

The application of the above factors would be as follows:

(1) Single-family homes located on rustic land in municipalities with lower population density - up to 85% of the Maximum Qualification Benefit for Family Composition;
(2) Multifamily Homes located in Rustic Land of Municipalities of Lower Population Density - up to 90% of the Maximum Benefit to Qualification by Family Composition;
(3) Single-family homes located in Urban Land other than the Urban Center of Municipalities with Lower Population Density - up to 100% of the Maximum Benefit to Qualification by Family Composition;

(4) Multifamily Homes located in Urban Land other than the Urban Center of Municipalities of Lower Population Density - up to 105% of the Maximum Benefit to Qualification by Family Composition;

(5) Single-family homes located in the urban center of municipalities with lower population density - up to 115% of the maximum qualifying benefit for family composition; multi-family homes located in the urban center of municipalities with lower population density - up to 120% of the maximum qualifying benefit for family composition;

(6) Single-family homes located on rustic land in island municipalities or municipalities with a higher population density - up to 95% of the maximum benefit for family composition;

(7) Multifamily Homes located in Rustic Land of Island Municipalities or of Higher Population Density - up to 100% of the Maximum Benefit to Qualification by Family Composition;

(8) Single-family homes located in urban land that is not an island municipality center or with a higher population density - up to 110% of the maximum benefit for family composition;

(9) Multifamily Homes located in Urban Land other than Island Municipalities or Higher Population Density - up to 115% of the Maximum Family Composition Qualification Benefit;

(10) Single-family homes located in Urban Center of Island or Higher Population Density Municipalities - up to 125% of the Maximum Family Composition Qualification Benefit; or

(11) Multifamily Housing located in the Urban Center of Island or Higher Population Density Municipalities - up to 130% of the Maximum Family Composition Qualification Benefit.

After making the corresponding calculation, the resulting figure should be rounded up to the next thousand. The same should be done when calculating the maximum amount of administrative adjustment.

(c) **Administrative Adjustment Mechanism.** - The DDEC Secretary, in consultation with the Secretary of Housing, may grant ordinary waivers of up to fifteen percent (15%) of the additional MPCCF, to establish a maximum sale price on a particular social interest housing project, and up to twenty-five percent (25%) of the additional MPCCF, to establish a maximum sale price, on a particular middle class housing project, when it is demonstrated that its development involves substantial extraordinary costs that are indispensable, such as installation of systems, water
heaters, solar energy plants, conditioning according to "Green Building" standards and/or intelligent houses, due to extraordinary unforeseen changes in the movement of land or the extraordinary application of exactions due to impact or requirements of extra-mural works by any government entity, including municipalities and public corporations, and when the social interest housing project is subject to the horizontal property regime under the parameters of Law No. 104 of June 25, 1958, as amended, better known as the "Condominium Law". If the housing is developed as a reconstruction in a building for which substantial demolition, removal and conditioning is required, the DDEC Secretary, in consultation with the Secretary of Housing, may grant an extraordinary adjustment or waiver of up to ten percent (10%) of the additional MPCCF, to establish a maximum sale price for both affordable and middle-class housing projects. This extraordinary waiver is applicable in excess of the ordinary waiver. The DDEC Secretary in consultation with the Secretary of Housing shall adopt a uniform procedure to request, consider and reasonably grant these waivers, proportional to the margin of exceptional costs and faithful to the rigor and compliance with the public policy outlined in Law 47-1987.

(c) **Updating, Determination and Publication of Prices** - Likewise, every three (3) years the Secretary of Housing shall update and determine the maximum sales price of the basic unit per municipality, taking into consideration its location, the behavior of economic indicators such as: the consumer price index, the producer price index, the price of cement and the maximum amount of the mortgage insurable by the Federal Housing Administration ("FHA") and generally accepted norms and parameters in the construction industry. However, the maximum sales price of the base unit may not be increased by more than the net cumulative change in the average personal income, as certified by the Planning Board in its Economic Reports to the Governor. The Department of Housing shall publish the updated price caps for affordable housing for each category and municipality in two newspapers of general circulation within the first three months of each calendar year.

(d) **Classification of Municipalities.** - The average population density of Puerto Rico will be used to classify the municipalities as having a lower or higher population density. Those municipalities whose population density exceeds the average density of Puerto Rico will be classified as Higher Population Density Municipalities. While those municipalities whose population density is below Puerto Rico's population density will be classified as Lower Population Density Municipalities. The municipalities of Vieques and Culebra will also be classified as Island Municipalities. This classification of population density will be reviewed by the Planning Board or the Department of Housing during the next one hundred and eighty (180) days from the official publication of the decennial census.

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For purposes of this definition, land classifications made by the following government entities shall be considered:

1. Rustic Land - Planning Board and/or Municipalities (when its Land Use Plan is in force);
2. Urban Land - Planning Board and/or Municipalities (when its Land Use Plan is in force);
3. Urban Center - Department of Transportation and Public Works, Urban Planning Department.

The areas of urban expansion in those municipalities that do not yet have their Land Management Plan approved by the Planning Board will be considered Urban Land for these Regulations, taking into account that those that are cataloged as urban centers by the Directorate of Urbanism of the State Department of Transportation and Public Works are within the areas identified as Urban Land and that these areas must be zoned or qualified as intermediate residential or high-density residential, according to the criteria established by the Planning Board in its Joint Regulations 2010. Under no circumstances shall it be understood that these Regulations allow the use of Non-Residential Rustic Land, especially that reserved for agricultural use or environmental conservation, for the purposes of Law 47-1987.

If there is no rating under this section for a specific property, the Housing Department will determine a rating solely for the determination of the price cap to be applied.

The formula for calculating the Maximum Adjusted Family Composition Benefit (MAPCCF) will be as follows:

1. The value that, at the date of initiation of the purchase process, provides the Federal Minimum Wage will be multiplied by 40, which are the hours of a full-time workday by 52, which are the number of weeks in a year, to obtain the Annual Income per Person (SMF x 40 x 52 = IAP).
2. The Annual Income per Person will be multiplied by 2, which is the number of adults who would hypothetically be providers to support the family and this amount will be divided by 12, which are the months that make up a year, to obtain the Monthly Family Composition Income (IAP x 2 / 12 = IMCF).
3. The Monthly Household Income will be multiplied by 29 percent, which is the maximum percentage accepted by the banking market that can be separated from income for the payment of a mortgage, to obtain the Maximum Mortgage Payment Capacity (IMCF x 29% = CMPPH).
4. The Maximum Mortgage Loan Payment Capacity will be divided by the principal and interest factor of a seven percent (7%) 30-year mortgage loan to obtain the Maximum Family Composition Qualifying Loan (CMPPH / .006653 = MPCCF).
5. The Family Composition Maximum Qualifying Benefit will be adjusted by
subtracting fifteen percent (15%) to take into account an approximate over-
indebtedness factor for mortgage borrowers in Puerto Rico, to protect rural
areas, reduce urban sprawl, and ensure affordable prices, thus obtaining the
Family Composition Maximum Qualifying Benefit Adjustment (MPCCF -
15% MPCCF = MAPCCF).

(f) **Formula review.** - This formula will be reviewed by the Planning Board each time
the Federal Minimum Wage is changed, starting from its effective date; all other
factors may only vary by law.

In the case of multi-family rental housing projects, "low-income housing" means
simple, row, pedestrian-access, multi-story structures for housing of middle-, moderate-, and low-income families when promoted or developed by the private
sector, the Department of Housing, or its operational agencies; and those developed by
the Department of Housing or private enterprises for middle-, moderate-, and low-
income families when the families benefit directly or indirectly from State or Federal
government assistance programs.

It is provided that in the cases of single-family and multi-family homes, they may be
built with units of one (1) to four (4) bedrooms, provided that they adhere to a
proportional adjustment of the corresponding ceilings under the preceding sections of
this article. This provision entails the following adjustment in the price cap
corresponding to such homes:

1. When it is one (1) bedroom, an adjusted cap equivalent to eighty percent
   (80%) of the corresponding cap under the preceding sections of this article
   shall apply;

2. When it is two (2) bedrooms, an adjusted ceiling will correspond to ninety
   percent (90%) of the corresponding ceiling under the preceding sections of
   this article;

3. When it is three (3) bedrooms, the same corresponding ceiling will apply
   under the preceding sections of this article; or

4. When it is four (4) bedrooms, an adjusted ceiling will correspond to one
   hundred and fifteen percent (115%) of the corresponding ceiling under the
   preceding sections of this article.

**Article 2073.05(a)-1A. - Requirement, Income from Assisted Living Housing Projects.**

(a) **General rule.** - A person may receive the benefits provided by paragraph (5) of
subsection (a) of Section 2072.01 of the Code relating to the four percent (4%) fixed-
rate preference imposed on income from Housing projects under the "Assisted
Living" Housing Project, subsection (d) of Section 2072.02 of the Code relating to the
exemption in subsection (c) of Section 2072.03 of the Code, which states that he may
benefit from the exemptions provided in subsection (a) of Section 2072.03 of the
Code on the ninety percent (90%) exemption from the payment of municipal fees and from any municipal tax or duty on the income from Housing projects under the "Assisted Living" Program, including the tax on real and personal property, and subsection (d) of Section 2072.04 of the Code, relating to the maximum tax period of fifteen (15) years, provided

1. Obtain a Certification of Eligibility issued by the Secretary of Housing that the Assisted Living Project meets the criteria established by the Department of Housing. Provide, that the Housing Department will be responsible for establishing the requirements for qualifying the "Assisted Living" project as an Eligible Business for the incentives provided under the Code. By submitting the Certification of Eligibility to the DDEC, it is understood that the Eligible Business is in full compliance with the provisions required by the Housing Department regarding its eligibility.

2. Submit an application to the DDEC with the information required in Subtitle F of these Regulations and the Code.

3. If any person or entity wishes to promote any "Assisted Living" Housing project and certification to operate as an Eligible Business has not been issued for such project, the promote or applicant must inform the DDEC Secretary with a copy to the Secretary of Housing in writing of his or her intention to apply for the required certification and indicate in promotional or advertising materials that the promoted project has not completed the certification process by the Secretary of Housing.

**Article 2073.06(a)(6)-1A. - Additional Information Requirements for Lease and Sales of Publicly Owned Property Exemption Applications.**

(a) Any Application for a Decree under Sections 2073.02(a)-1A and 2073.04(a)-1A shall include, in addition to any other information or documentation outlined in the specific implementing provisions of these Regulations, the following.

1. Evidence of application for Certification of Eligibility from the Housing Department or copy of the Certification of Eligibility issued by the Housing Department

2. The amount projected to be charged as the maximum rent per housing unit;

3. For purposes of the application under Article 2073.04(a)-1A, the Eligible Business shall submit a cost estimate with a breakdown by expense item approved by the DDEC Secretary before the commencement of construction or rehabilitation work.

**Article 2073.07(a)-1A. - Housing Construction Exemption Requirements for Senior Rentals.**
(a) **General rule.** - A person may receive the benefits provided in paragraph (2) of subsection (b) of Section 2072.01 of the Code on the fixed preferential rate of four percent (4%) imposed on income from the construction of Senior Housing, Section 2072(b).03 of the Code on the ninety percent (90%) exemption from municipal patent, tax, or municipal fee related to income from construction of low-income Senior Housing, Section 2072.04(b) of the Code regarding the maximum tax period of fifteen (15) years, applicable to such businesses, provided

1. Construction or rehabilitation of rental housing units begins after the effective date of the Code;
2. The tenant of the housing unit is a Qualified Senior; and
3. The owner shall submit to the DDEC Secretary all documents and information required in Section 6020.01(b)(2)-2 and Section 6020.01(b)(2)-3(h)(1)(B).
SUBCHAPTER D. - RESERVED

CHAPTER 7B. - GREEN OR HIGHLY EFFICIENT ENERGY

SUBCHAPTER A. - RESERVED

SUBCHAPTER B. - TAX BENEFITS

Article 2072.01(d)-1B. - Income Tax.

(a) Exempt Businesses whose activities are described in paragraphs (6), (7), (8), (9) and (10) of Section 2071.01 of the Code shall be subject to the following:

(1) Four Percent (4%) Fixed Prime Rate. - Businesses engaged in the Green Energy or High Efficiency industry will be subject to a preferential fixed income tax rate of four percent (4%) on their Green Energy or High-Efficiency Income during the applicable exemption period, instead of any other income tax if any, provided by the Puerto Rico Internal Revenue Code or any other law.

(2) Royalties and License Fees - Notwithstanding the provisions of the Puerto Rico Internal Revenue Code, in the case of payments made by Exempt Businesses that have a Decree under Chapter 7 of Subtitle B of the Code, to Foreign Persons not dedicated to industry or business in Puerto Rico for the use or privilege of use in Puerto Rico of Intangible Property related to the operation declared exempt under Chapter 7 of Subtitle B of the Code and subject to such payments being considered entirely from sources within Puerto Rico, the following rules shall be observed:

(A) Contribution to Foreign Persons Not Dedicated to Industry or Business in Puerto Rico, Taxation of the Contribution. - A tax of twelve percent (12%) shall be imposed, collected and paid for each Taxable Year in lieu of the tax imposed by Sections 1091.01 and 1091.02 of the Puerto Rico Internal Revenue Code on the amount of such payments received or implicitly received by any foreign corporation or partnership not dedicated to industry or business in Puerto Rico exclusively from sources within Puerto Rico.

(B) Withholding at the Source of the Contribution in the case of Foreign Persons who are Entities not Dedicated to Industry or Business in Puerto Rico. - Any Exempt Business that has the obligation to make payments to non-residents for the use in Puerto Rico of Intangible Property related to the exempt transaction under Chapter 7
of Subtitle B of the Code, shall deduct and withhold at source a contribution equal to that imposed in subsection (A) above.

(3) **Distributions, Sale or Exchange of Assets Shares.** –

(A) **Distributions.** - Gains realized on the sale, exchange or other disposition of Shares of Entities that are or have been Exempt Businesses under paragraphs (6), (7), (8), (9) and (10) of Section 2071.01 of the Code, interests in joint ventures and similar entities comprised of various corporations, partnerships, individuals or combinations thereof that are or have been exempt businesses and Shares of Entities that are in some way owned by the entities described above, shall be subject to the provisions of subparagraph (B) of this paragraph (3) upon the sale, exchange or other disposition; and any subsequent distribution of such proceeds, whether as a dividend or as a distribution in liquidation, shall be exempt from further taxation.

(B) **Sale or Exchange of Shares or Assets.** –

(i) **During the exemption period.** - Gains realized on the sale, exchange, or other disposition of Shares in businesses that are or were Exempt Businesses or that are or were part of Exempt Businesses under paragraphs (6), (7), (8), (9), and (10) of Section 2071.01 of the Code that is made during its exemption period and that would have been subject to income tax under the Puerto Rico Internal Revenue Code, shall be subject to a flat tax of four percent (4%) over the amount of the profit made, if any, in lieu of any other tax imposed by the Puerto Rico Internal Revenue Code or any other law. Any loss on the sale or exchange of such Shares or assets will be recognized under the provisions of the Puerto Rico Internal Revenue Code.

According to Section 1034.02(b)(1)(B) of the Internal Revenue Code, the adjusted basis for determining the gain or loss realized by the exempt business on the sale or exchange of property sold by the exempt business shall be adjusted taking into consideration the depreciation or amortization of the property under Section 1033.07 of the Puerto Rico Internal Revenue Code. However, in those cases where the exempt business has claimed the deduction under Section 2072.06 of the Code, the basis shall be adjusted by the claimed deduction.

The recognition of any loss on the sale or exchange of such shares or assets will be made under the provisions of the Code. In addition, the gain realized by an exempt business on the sale or
exchange of all or substantially all of the assets used in the exempt operations during a taxable year for which it has an election in effect under Section 2011.05 of the Code, shall be subject to income tax under the provisions of the Puerto Rico Internal Revenue Code, at the tax rates provided by the Internal Revenue Code.

The provisions of subsection (i) are illustrated by the following examples.

**Example 1.** - M Corporation sells to P Corporation all assets used in its covered operation under an exemption decree under paragraphs (6), (7), (8), (9) and (10) of Section 2071.01 of the Code. The assets sold consist of accounts receivable, inventory, machinery and equipment. "M" elected, under the provisions of Section 2072.06 of the Code, to claim a deduction for the amount of its investment in machinery and equipment.

The tax basis of all assets sold is $1,100,000, not considering the adjustment as a result of the election under Section 2072.06 of the Code, as provided in Section 1034.02(b)(1)(B) of the Internal Revenue Code. The excess depreciation claimed on the income tax return under Section 2072.06 of the Code on the depreciation of those assets using the straight-line method is $600,000. Such $600,000 is reflected as a recovery of depreciation subject to the rate applied to the exempt business under this Article, in this case, four percent (4%). The sale price of all assets was $1,900,000. "M" shall recognize a gain of $800,000 ($1,900,000 - 1,100,000), which shall be subject to the rate of four percent (4%).

**Example 2.** - Shareholder "R", a bona fide resident of Puerto Rico, sells in Puerto Rico all the issued and outstanding shares of Corporation "C", all of whose operations are covered by an exemption decree under paragraphs (6), (7), (8), (9) and (10) of Section 2071.01 of the Code. As of the date of sale of the shares, "C" has accumulated profits and benefits of $3,000,000.

The sale price of the shares is $4,000,000 and the basis of the shares for "R" is $500,000.

For purposes of determining the gain on the sale of the shares, the adjusted basis of the shares is $3,500,000 ($500,000 + $3,000,000), according to paragraph (3)(C) of this Article. The gain realized and recognized by "R" on the transaction is
$500,000 ($4,000,000 - 3,500,000), which will be subject to a tax rate of four percent (4%).

**Example 3.** - The same facts as in Example 2 are assumed, except that "R" was not a resident of Puerto Rico at the time of the sale. In that case, if the sale is of shares of a corporation, the sale does not generate income from sources in Puerto Rico, so it is not subject to taxation in Puerto Rico. However, if the sale is in the interest of a corporation, the source of the income will be classified under the provisions of Section 1035.08 of the Puerto Rico Internal Revenue Code.

(ii) **After the End Date of the Exemption Period.** - When the sale or exchange is made after the expiration date of the exemption, the gain will be subject to the contribution provided in subsection (i) above, but only to the amount of the value of the Shares of the Entity, or substantially all of the assets on the books of the corporation or partnership, as of the date of termination of the exemption period, reduced by the amount of exempted distributions received on these Shares of the Entity after such date, less the basis of such Shares, or substantially all of the assets. Any remaining gain or loss, if any, will be recognized under the provisions of the Puerto Rico Internal Revenue Code in effect on the date of the sale or exchange.

The provisions of the paragraph are illustrated by the following example:

**Example 1.** - Shareholder B owns all the issued and outstanding shares of the R Corporation, all of whose operations are covered by an exemption decree under paragraphs (6), (7), (8), (9) and (10) of Section 2071.01 of the Code. At the time the decree expired, B’s shares had a carrying value of $4,000,000 and R had retained earnings and benefits of $3,000,000.

After the expiration of the decree, B receives a dividend of $400,000, leaving a balance of $2,600,000 of accumulated earnings and benefits covered by the exemption decree under paragraphs (6), (7), (8), (9) and (10) of Section 2071.01 of the Code. Six months later, B sells all of its shares of R.
The sale price of the shares is $4,500,000 and the basis of the shares for "R" is $500,000.
For purposes of determining the gain on the sale of the shares, the adjusted basis of the shares is $3,100,000 ($500,000 + 2,600,000). The total gain realized and recognized by "B" in the transaction is $1,400,000 ($4,500,000 - 3,100,000), of which $900,000 ($4,000,000 - 3,100,000) will be subject to the four percent (4%) tax rate under the Code, while the remaining $500,000 will be taxed according to the provisions of the Puerto Rico Internal Revenue Code.

(iii) **Exempt exchanges.** - Exempt swaps of shares of entities that do not result in taxable events because they are exempt reorganizations will be treated under the provisions of the Puerto Rico Internal Revenue Code in effect on the date of the swap.

(C) **Determination of Bases for Sale or Exchange.** - The basis of Shares or assets of Exempt Businesses under paragraphs (6), (7), (8), (9) and (10) of Section 2071.01 of the Code in the sale or exchange shall be determined under the applicable provisions of the Puerto Rico Internal Revenue Code in effect at the time of the sale or exchange, increased by the amount of Green or High-Efficiency Energy Income accrued under the Code.

The provisions of this subsection (C) are illustrated by the following examples.

**Example 1.** - Shareholder "J" owns all the issued and outstanding shares of Corporation "Z", whose tax base is $100,000. "Z" has a tax exemption decree under paragraphs (6), (7), (8), (9) and (10) of Section 2071.01 of the Code. "J" wishes to sell Z's shares. The profits and benefits from the operations covered by the exemption decree accrued on the date of the sale are $250,000. J's basis in the Z shares for purposes of this clause will be $350,000.

**Example 2.** - Corporation B sells to Corporation A all assets (net of debt) used in its covered operation under an exemption decree under paragraphs (6), (7), (8), (9) and (10) of Section 2071.01 of the Code. The assets sold consist of accounts receivable, inventory, machinery, and equipment. At the time of sale "B" has accumulated earnings and profits of $3,000,000.

The tax base of all net assets sold is $1,100,000. The sale price of all net assets was $3,900,000. "B" shall recognize a gain of $2,800,000 ($3,900,000 - 1,100,000), which shall be subject to the four percent (4%) rate set forth in subsection (B)(i) of paragraph (3) of this Article.
Accumulated profits and benefits of $3,000,000 in the case of the sale of assets do not increase the asset base.

(D) For purposes of this paragraph (3), the term "substantially all of the assets" shall mean those assets of the Exempt Business that represent not less than eighty percent (80%) of the book value of the Exempt Business at the time of sale. For these purposes, assets consisting of cash and liquid investments of the Exempt Business shall not be considered.

The provisions of this subsection (D) are illustrated by the following examples.

**Example 1.** - The S Corporation has a tax exemption decree under paragraphs (6), (7), (8), (9) and (10) of Section 2071.01 of the Code and all of its activities are covered by the exemption decree. "S" sells its assets, which at the time of sale are: accounts receivable, inventory, machinery and a building with a book value of $250,000, $250,000, $500,000 and $2,000,000, respectively. The building has a debt with a balance at the time of sale of $50,000, which will be assumed by the buyer. "S" sold only the machinery and the building ($500,000 + 2,000,000).

"S" shall be deemed to have sold "substantially all of the assets" for purposes of this clause because assets with a carrying value over eighty percent (80%) of the carrying value of all assets at the time of sale ($2,500,000 out of $3,000,000) were sold.

**Example 2.** - The same facts as in Example 1 are assumed, except that only the building is sold. S will be deemed not to have sold "substantially all of the assets" for purposes of this clause because assets with a book value of less than eighty percent (80%) of the book value of all the assets at the time of sale ($2,000,000 out of $3,000,000) were sold.

**Article 2072.02(f)-1B. - Commencement Date of Property Tax Exemption**

(a) The exemption period provided in paragraph (f) of Section 2072.02 of the Code for the real property and personal property exemption shall begin on January 1 following the date the Eligible Business begins the activities covered by the Decree.

(b) Where an Eligible Business has commenced exempt operations before the date of applying for the benefits of this Chapter, the exemption period provided in paragraph (f) of Section 2072.02 of the Code for the homestead exemption shall be the first (1st) January following the date the application for the tax exemption was filed under the Code.
Article 2072.03(d)-1B. - Commencement Date of Exemption from Municipal Patents and other Municipal Taxes.

(a) The following provisions shall apply for purposes of the commencement date of the exemption from Municipal Patents and other Municipal Taxes provided in paragraph (d) of Section 2072.03 of the Code:

(1) The Exempt Business that has a granted Decree will enjoy total exemption on the municipal taxes or patents applicable to the turnover of said exempt business during the semester of the fiscal year of the Government of Puerto Rico in which the exempt business begins operations in any municipality, under the Municipal Patent Law. In addition, exempt businesses that have a Decree granted under paragraphs (6), (7), (8), (9) and (10) of Section 2071.01 of the Code will be exempt from municipal taxes or patents on turnover during the two (2) semesters of the fiscal year or fiscal years of the Government of Puerto Rico following the semester during which they begin operations.

(2) The period of the partial exemption provided in paragraph (d) of Section 2072.03 of the Code for purposes of the exemption of municipal patents and any other municipal taxes, shall begin on the first day of the first semester of the fiscal year of the Government of Puerto Rico after the expiration of the period of total exemption.

(b) Any Business Exempt under paragraphs (6), (7), (8), (9), and (10) of Section 2071.01 of the Code or Prior Incentive Laws may waive the benefit of the five percent (5%) prompt payment discount as provided in Section 11 of the "Municipal Patent Law" and make full payment of its municipal patent on the date provided by such law. In the case of Exempt Businesses that choose to make the prompt payment and waive the discount, the prescription period for the appraisal and collection of the patent imposed under the "Municipal Patent Law" will be three (3) years from the date the Declaration on Turnover is filed, instead of the terms outlined in paragraphs (a) and (b) of Section 19 of the "Municipal Patent Law".

(c) Being arranged, that in the case of Exempt Businesses under paragraphs (6), (7), (8), (9) and (10) of Section 2071.01 of the Code that has been operating in Commercial Scale before requesting the Decree, the date of the beginning of operations for the effect of municipal patents will begin the first day of the following semester to the date of filing this request of Decree.

Article 2072.04(e)(7)-1B. - Establishment of Commencement Dates and Tax Exemption Periods.
(a) The following provisions shall apply for purposes of the commencement date and tax exemption periods concerning Businesses that have Decrees under paragraphs (6), (7), (8), (9) and (10) of Section 2071.01 of the Code.

1. General rule. –

   (A) An Exempt Business that has a Decree granted under paragraphs (6), (7), (8), (9) and (10) of Section 2071.01 of the Code shall give notice of the date of commencement of operations by filing an affidavit with the Incentive Bureau, under the terms outlined in the Decree granted. Otherwise, the Decree shall be deemed null and void. If applicable, the Exempt Business may include the notification of the date of commencement of operations in an affidavit expressing the unconditional acceptance of the Decree granted.

   (B) The Exempt Business must begin operations on a commercial scale within one year from the date of signature of the Decree, which term may be extended by the Incentive Bureau at the request of the Exempt Business for good cause. No extensions extending the date of commencement of operations will be granted for a term longer than five (5) years from the date of approval of the Decree.

2. Start of Operations Date for Businesses that have not Started Operations. –

   (A) The date of commencement of operations for purposes of the fixed rate of income tax provided for in subsection (d) of Section 2072.01 of the Code may be the date of the first payroll for training or production of the exempt business that holds a Decree granted under paragraphs (6), (7), (8), (9) and (10) of Section 2071.01 of the Code or any date within two (2) years of the date of the first payroll.

   (B) An Exempt Business that has a Decree issued under paragraphs (6), (7), (8), (9) and (10) of Section 2071.01 of the Code may postpone the application of the flat fee provided in paragraph (d) of Section 2072.01 of the Code for a period not to exceed two (2) years from the date of commencement of operations as set forth under the provisions of this Article. During the postponement period, such Exempt Business shall be subject to the tax rate applicable under Subtitle A of the Puerto Rico Internal Revenue Code.

3. Date of Commencement of Operations for Businesses that have begun operations. –

   (A) In the case of Exempt Businesses that have a Decree under paragraphs (6), (7), (8), (9), and (10) of Section 2071.01 of the Code that has been operating on a commercial scale before applying for the benefits of the
Decree, the date of commencement of operations for purposes of the fixed rate of income tax provided in paragraph (d) of Section 2072.01 of the Code shall be the date of filing of an application with the Incentive Bureau. Provided, that the commencement date for purposes of the fixed rate of income tax provided by Section 2072.01(d) of the Code, at the option of the Exempt Business, may be postponed for a period not to exceed two (2) years from the date of filing of the application with the Incentive Bureau.

(B) **Date of Commencement of Operations for Businesses that have Started Operations in one Municipality and Move or Begin Operations in another Municipality** - The effective date shall be the date of commencement of operations on a commercial scale in such municipality and shall apply for the remainder of the period granted to the Exempt Business.

(C) **Date of Commencement of Operations for Businesses that have discontinued their Decree.** – If an Exempt Business has a Decree issued under paragraphs (6), (7), (8), (9), and (10) of Section 207101 of the Code has ceased operations and then wishes to resume them, the time that it was not operating shall not be discounted from the period of exemption that corresponds to it and it may enjoy the remaining period of exemption while its Decree is in force, provided that the DDEC Secretary determines that such cessation of operations has been for justified causes and that the reopening of such Exempt Business will be in the best social and economic interests of Puerto Rico.

(D) **Date of Start of Operations for Successor Businesses.** –

(i) When the Decree is granted under the provisions of Chapter 7 of Subtitle B of the Code relating to businesses with decrees under paragraphs (6), (7), (8), (9), and (10) of Section 207101 of the Code, while the business is enjoying the benefits of a decree whose activity is substantially similar to that specified in the decree in effect at the time the application is filed, the date of commencement of operations shall be any date within the tax year in which the application for exemption is filed or the first day of the following tax year, at the option of the Exempt Business. The semesters of total exemption in patents and property that are granted to the businesses with Decree will not be granted.
Article 2072.05(a)-1B. - State Taxes and Sales and Use Tax.

(a) Green Energy and Highly Efficient Energy Businesses as described in paragraphs (6), (7), (8), (9) and (10) of Section 2071.01 of the Code. –

(1) In addition to any other exemption from taxes or sales and use tax granted under Subtitle D of the Puerto Rico Internal Revenue Code, the following articles introduced or acquired directly or indirectly by a business that has a Decree granted under Chapter 7 of Subtitle B of the Code, shall be exempt from such taxes during the exemption period provided for in Chapter 7 of Subtitle B of the Code:

(A) Any raw material to be used in Puerto Rico in the production of Green or High-Efficiency Energy, for this subsection and the provisions of Subtitle C or D of the Puerto Rico Internal Revenue Code that may be applicable, the term "raw material" shall include

(i) Any product in its natural form derived from agriculture or the extractive industries (including natural gas), and

(ii) Any by-product, residual product or partially processed or finished product (including propane gas).

(B) The machinery, equipment and accessories thereof that are used exclusively and permanently in the conduction of raw materials within the circuit of the Exempt Business, the machinery, equipment and accessories that have been used to carry out the production of Green or High-Efficiency Energy, or that the Exempt Business is required to acquire as a requirement of federal or state law or regulation for the operation of the eligible activity;

(C) All machinery and equipment that an Exempt Business must use to comply with environmental, safety and health requirements will be exempt from payment of state taxes, as well as sales and use tax;

(D) The chemical materials used by an Exempt Business in the treatment of wastewater

(E) Energy-efficient equipment certified as Energy Star;

(i) For purposes of this subsection, equipment shall be distinguished by its energy efficiency in changes in energy use attributable to the replacement of fixtures and equipment, or improved operation of existing materials or equipment.

(ii) The U.S. Environmental Protection Agency (EPA) ENERGY STAR® program is used as the tool to measure energy efficiency. Energy Star is a U.S. Environmental Protection Agency program created in 1992 to promote electricity-efficient electrical products, thereby reducing greenhouse gas emissions from power
plants. The Portfolio Manager Manual serves as a resource and planning guide for small business owners and staff who want to increase the energy efficiency of their properties. The DDEC and the Public Energy Policy Program (PPPE) use this tool (Portfolio Manager) to calculate a property's baseline energy consumption and monitor energy use over time by setting goals for the future. For this purpose, details of a property's energy consumption data are recorded to achieve the following:

1. Evaluate the energy performance of the entire building;
2. Monitor changes in energy costs;
3. Suggesting energy-efficient purchases;
4. Create progress reports and;
5. Share data with relevant government agencies.

(F) The electrical substations.

(2) **Exceptions.** - The following articles of use and consumption used by the Exempt Business that has a Decree granted under paragraphs (6), (7), (8), (9), and (10) of Section 2071.01 of the Code, regardless of the area or premises where they are located or their use, shall not be considered raw materials, machinery, or equipment for purposes of paragraph (1) of this section:

- (A) All building materials and prefabricated buildings;
- (B) All electrical material and water pipes embedded in the buildings;
- (C) Lubricants, greases, wax and paints not related to the energy production process;
- (D) Lighting poles and luminaires installed in parking areas; and
- (E) The treatment plants.
SUBCHAPTER C. - REQUIREMENTS FOR THE GRANTING OF EXEMPTION

Article 2073.01(b)-1B. - Requirement for Applications for Decrees.

(a) Any person may apply for the benefits for Eligible Green Energy Businesses under Chapter 7 of Subtitle B of the Code, provided that he or she meets the eligibility requirements outlined in paragraphs (6), (7), (8), (9) and (10) of Section 2071.01 of the Code and any other criteria that the DDEC Secretary establishes by administrative decree, circular letter or any other communication of a general nature, including as evaluation criteria the contribution that the Eligible Business makes to the economic development of Puerto Rico. The evaluation criteria must take into consideration the following guiding principles:

1. **Jobs.** - The Green Energy or Highly Efficient Generation Activity and the Exempt Business encourage the creation of new jobs. In addition, consideration will be given to whether the Exempt Business pays its employees above the federal minimum wage level set by the Fair Labor Standards Act.

2. **Harmonious Integration.** - The design and conceptual planning of the Green Energy or Highly Efficient Generation Activity and the Exempt Business will be carried out, primarily, taking into consideration the environmental, geographical and physical aspects, as well as the available and abundant materials and products of the place where it will be developed. Safe development will be ensured to prevent catastrophic damage from probable natural disasters.

3. **Commitment to Economic Activity.** - The Exempt Business will acquire, to the extent possible, raw materials and manufactured products in Puerto Rico for the construction, maintenance, renovation or expansion of its physical facilities. If the purchase of such products is not financially justified when taking into consideration criteria of quality, quantity, price or availability of such products in Puerto Rico, the DDEC Secretary may exempt it from this requirement and issue a certificate to that effect.

4. **Commitment to Agriculture.** - The Exempt Business will acquire, to the extent possible, agricultural products from Puerto Rico to be used in its operation. If the purchase of such products is not financially justified when taking into consideration criteria of quality, quantity, price or availability in
Puerto Rico, the DDEC Secretary may exempt it from this requirement and issue a certificate to that effect.

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

By "services" it will be understood, the hiring of works of

(A) Surveying, production of construction drawings, as well as engineering, architectural and related services;

(B) Construction and everything related to this sector;

(C) Economic, environmental, technological, scientific, managerial, marketing, human resources, IT and auditing consultancy;

(D) Advertising, public relations, commercial art and graphic services

(E) Security or maintenance of your facilities and

(F) Any other professional field that involves talent, knowledge, academic preparation or technical experience that is not available in Puerto Rico.

The reasons and grounds justifying the special need must be presented to the DDEC Secretary with their consent.

(6) **Financial Commitment.** - The Exempt Business must demonstrate that they deposit a considerable amount of income from their economic activity and use the services of banking institutions or cooperatives with presence in Puerto Rico.

(7) **Certified Energy Company.** - Exempt Businesses engaged in activities eligible under paragraphs (6), (7), (8), (9) and (10) of Section 2071.01 of the Code, shall comply with the requirement to submit to the DDEC Secretary, before beginning operations, evidence demonstrating that the exempt business constitutes a certified energy company before the Puerto Rico Energy Business, if this certification applies to the Exempt Business.

(8) The DDEC Secretary shall be the officer responsible for verifying and ensuring compliance of Exempt Businesses with the eligibility requirements outlined in this Article and those related to eligible activities referred to in paragraphs (6), (7), (8), (9) and (10) of Section 2071.01 of the Code. If the Exempt Business partially complies with the requirements set forth in this Article, it shall be incumbent upon the DDEC Secretary to establish a formula that allows the quantification of the above factors and to subtract the
unmet requirement from the total percentage of the specific incentive, to obtain the exact figure of the percentage of the benefit in question. In this case, Eligible Businesses must apply for the Incentive Award through the extraordinary procedure, according to Code Section 6020.01(e).

CHAPTER 8. - AGRO-INDUSTRIES

SUBCHAPTER A. - RESERVED

SUBCHAPTER B. - TAX BENEFITS

Article 2082.02-1. - Effective Date of Income Tax Exemption.

(a) The exemption period provided in Section 2082.02 of the Code for the income tax exemption shall begin on the date shown on the Bona Fide Farmer's Certificate issued by the Department of Agriculture.

Article 2082.03-1. - Effective Date of Property Tax Exemption.

(a) The exemption period provided in Section 2082.03 of the Code for the exemption from property and real property taxes shall begin on the date shown on the Bona Fide Farmer's Certificate issued by the Department of Agriculture.

Article 2082.04-1. - Effective Date of Municipal Tax Exemption.

(a) The exemption period provided in Section 2082.04 of the Code for the municipal patent tax exemption shall begin on the date shown on the Bona Fide Farmer's Certificate issued by the Department of Agriculture.

Article 2082.05(a)(5)-1. - Exemption from Sales and Use Tax and Duties.

(a) Bona Fide Farmers who engage in the activities provided for in paragraph (2) of subsection (a) of Section 2080.01 of the Code and who in turn possess a Decree granted under the Code are exempted from the payment of duties and sales and use taxes, if applicable, as provided for in Subtitles C, D, and DDD of the Puerto Rico Internal Revenue Code, provided that they meet the requirements outlined in Section 2083.05 of the Code, on the following articles when they are introduced or acquired directly or indirectly by them for use in such activities

(1) Equipment used by coffee growers to process the bean once it is grown until it is ready for roasting; equipment and appliances used in the production, processing, pasteurization or elaboration of milk or its derived products; for use in coffee roasting, distribution or sale for consumption in the home or
outside the home, including hotels and other businesses; all equipment, appliances, vehicles and other items for use in the production, or processing, or pasteurization, or homogenization, or sterilization, or distribution, or sale of milk or milk products

Article 2082.05(a)(11)-1. - Exemption from Sales and Use Tax and Duties.

(a) Bona Fide Farmers who engage in the activities provided for in paragraph (2) of subsection (a) of Section 2080.01 of the Code and who in turn possess a Decree granted under the Code are exempted from the payment of duties and sales and use taxes, if applicable, as provided for in Subtitles C, D, and DDD of the Puerto Rico Internal Revenue Code, provided that they meet the requirements outlined in Section 2083.05 of the Code, on the following articles when they are introduced or acquired directly or indirectly by them for use in such activities

(1) Any kind of vehicle other than a car, for use in the agricultural activity. The following vehicles shall be deemed eligible for the exemption provided for in this Article:

(A) trucks or forklifts used exclusively and permanently in the agricultural activity; and

(B) The following vehicles are used exclusively and permanently in the agricultural activity: SUVs, pickup trucks, cargo vans, with or without a refrigeration system, or all-terrain vehicles.

(1) For purposes of this exemption, all vehicles must meet the following requirements:

(A) have load or dragging capacity according to the needs of the covered agricultural operation, as applicable;

(B) Both sides and the door or back door of the vehicle will be labeled with the name of the agro-industrial and agricultural business and the phrase "BONA FIDE FARMER". The letters in the name of the Agricultural and Agribusiness Business and the above-mentioned phrase must be in capital letters and must be at least four (4) inches high and not less than one-half (1/2) inch wide; and

(C) Within thirty (30) days of obtaining the exemption recognized herein, Bona Fide Farmer must submit to the Department of Treasury's Port Control Bureau an affidavit stating that this requirement has been met.
SUBCHAPTER C. - REQUIREMENTS FOR THE CONCESSION OF EXEMPTION

Article 2083.03(b)-1. - Requirements for the Bona Fide Farmers' Tax Exemption

(a) New Agribusinesses. - A New Agricultural and Agribusiness Business for which a Bona Fide Farmer Certification is not possible because it does not have Gross Income for the Bona Fide Farmer calculation, must comply with the following requirements and procedures to qualify for the benefits of Chapter 8 of the Code:

(1) The Secretary of Agriculture is responsible for issuing the Bona Fide Farmer certification to each applicant. The Secretary of Agriculture shall issue each conditional certification taking into account the type of Farming Business or Agribusiness as outlined in Section 1020.08(a)(1) of the Code, provided that the New Farming Business or Agribusiness may apply for such conditional certification for the appropriate number of years to meet the Gross Income requirements set forth under the definition of a Bona Fide Farmer in Section 1020.08(a)(1) of the Code.

(2) The DDEC Secretary is empowered to issue a Decree to a Bona Fide Farmer with a certification issued under this section.

(3) Each conditional Bona Fide Farmer's Certification issued by the Secretary of Agriculture under this section shall be effective for one (1) year from the date it is issued. During such a period, the incentives provided for in Chapter 8 of the Code shall be granted.

(4) The Decree shall constitute sufficient and reliable evidence before the Government of Puerto Rico, its branches of government, the agencies and instrumentalities of the Government of Puerto Rico, the political subdivisions that the person in favor of whom the Decree is issued is a Bona Fide Farmer and shall be entitled to the exemptions, deductions, credits and other benefits or rights under the Code and these Regulations.

(b) Existing Agribusinesses. - A Farming and Agribusiness Business must comply with the following requirements and procedures to qualify for the benefits of Chapter 8 of the Code:

(1) Each Bona Fide Farmer's Certification issued by the Secretary of Agriculture under this section shall be effective for one (1) year from the date on which it is issued or until the earlier date on which the person with the certification has ceased to be a Bona Fide Farmer, including because the operation or exploitation of the Agricultural and Agribusiness Business for which the certification was granted has ceased or been terminated, whichever period is shorter.

(2) The Secretary of the Treasury may determine whether the Exempt
Business with such Bona Fide Farmer certification meets the fifty-one percent (51%) gross income requirement of the Agricultural and Agribusiness Business when filing its income tax return.

(3) The effectiveness of the Decree under Chapter 8 shall be conditioned upon the annual filing of the Bona Fide Farmer Certification with the Incentive Bureau.

(4) The Decree shall constitute sufficient and reliable evidence before the Government of Puerto Rico, its branches of government, the agencies and instrumentalities of the Government of Puerto Rico, the political subdivisions that the person in favor of whom the Decree is issued is a Bona Fide Farmer and shall be entitled to the exemptions, deductions, credits and other benefits or rights under the Code and these Regulations.

**Article 2083.04(a)-1. - Debt Instrument Exemption Requirements.**

(a) The term "other debt instruments" does not include those instruments that have both debt and equity characteristics. This determination shall be made under the rules of the Code to establish whether or not payments made on the principal of the instrument constitute interest.

**Article 2083.04(c)-1. - Debt Instrument Exemption Requirements.**

(a) The funds obtained by the Bona Fide Farmer from such bonds, notes and other debt instruments shall be used solely and exclusively for the financing of the Agricultural and Agribusiness Businesses described in these Regulations and Chapter 8 of the Code, which are carried out by a Bona Fide Farmer.

**Article 2083.05(a)-1. - Requirements for Exemption from State Taxes and Sales and Use Taxes (UTI).**

(a) **Mechanism for Requesting Exemption from State Taxes.** -

(1) A Bona Fide Farmer who wishes to avail himself of the exemption from duties under Section 2082.05 of the Code must comply with the provisions of the Bona Fide Farmer Number Program, established by the Secretary of the Treasury, by completing the application required for these purposes, including swearing that, among other things, the information provided by him is true and that he will use the article for which he claims the exemption solely and exclusively in the operation and development of his Agricultural and Agribusiness Business. In
addition, he/she must submit a copy of his/her Decree to the Secretary of Finance. If after having claimed the exemption from taxes the Secretary of Finance determines that he/she was not a Bona Fide Farmer for the year in which he/she claimed the exemption, said farmer will owe the amount of the tax corresponding to the articles acquired during the year, plus interest, penalties and surcharges.

(2) The Bona Fide Farmer shall submit to the Secretary of the Treasury all the documents requested under the processes established by the Secretary of the Treasury, duly completed, who, before granting the exemption, shall send a duplicate of the duly sworn application to the Secretary of Agriculture so that the latter may, within a term not to exceed thirty (30) days, determine the veracity of the information provided. Once this process has been completed, the Secretary of Finance shall determine whether to approve or deny the application.

(3) Upon completion of the assessment process between the Secretary of Finance and the Secretary of Agriculture, the Secretary of Finance shall provide a copy of the documents to the DDEC Secretary for filing with the Exempt Business file.

(4) The tax exemptions established and provided by the Code are immediate and are in effect at the time the information submitted in the application is validated.

(5) If it is determined that the Exempt Business submitted false or fraudulent information to apply for this exemption, the Exempt Business shall be exposed to the denial of the exemption, to the administrative procedures established in Subtitle F of these Regulations and the Code, and any other civil and criminal proceedings provided for by the Secretary of Agriculture, DDEC Secretary and/or the Secretary of the Treasury or in any other applicable laws of the Government of Puerto Rico.
(b) **Mechanism to request UTI exemption.** -

1. The sales and use tax exemption provided for in Section 2082.05 of the Code shall only be available to Bona Fide Farmers registered in the Merchant's Registry according to Section 4060.01 of the Puerto Rico Internal Revenue Code. To acquire the agricultural articles, exempt from sales and use tax, every Bona Fide Farmer must present to the selling merchant the Certificate of Exempt Purchases, according to the procedures established by the Secretary of the Treasury.

2. Every selling merchant shall document the exempt nature of each transaction, including the first sale and all subsequent sales, with a Bona Fide Farmer by obtaining the Certificate of Exempt Purchases, supplemented and signed by the Bona Fide Farmer, under procedures established by the Secretary of the Treasury.

**SUBCHAPTER D. - RESERVED**
CHAPTER 9. - CREATIVE INDUSTRIES

SUBCHAPTER A. - RESERVED

SUBCHAPTER B. - TAX BENEFITS

Article 2092.01(c)-1. - Rental of Furniture Property.

(a) Payments made after July 1, 2019 by a Licensee to non-resident individuals, corporations, foreign corporations or other Foreign Persons not engaged in an industry or business in Puerto Rico for income from movable property located in Puerto Rico or from any interest in such property, including income from the use of movable property in Puerto Rico, shall not be subject to income tax, withholding of income tax at source or sales and use tax, provided that such property is used directly or indirectly in activities eligible under Chapter 9 of Subtitle B of the Code. To enjoy this exemption, the Licensee shall submit for approval to the Department of the Treasury and the DDEC Secretary a certification that the personal property was not available in Puerto Rico for direct or indirect use in activities eligible under Chapter 9 of Subtitle B of the Code. The Secretary of the Treasury and the DDEC Secretary shall determine through an administrative determination, circular letter or newsletter, the manner in which it shall be submitted to them. This certification shall be in the form of an affidavit and shall include:

1. Description of the leased property;
2. Name and place of origin of the landlord;
3. Brief description of the steps taken to rent the property in Puerto Rico;
4. Assertion that he/she made a reasonable effort to rent out the furniture property in Puerto Rico.

Article 2092.02(a)-1. - Special Deductions for Donations to Film Businesses.

(a) Donations from Private Persons to Non-Profit Organizations duly authorized for the production of projects of feature films, short films, documentaries, film festivals or educational activities aimed at training and development of the film industry. - To enjoy this special deduction, the following requirements must be met:

1. Donations cannot exceed one hundred thousand dollars ($100,000.00) per film project;
2. Donors may not be linked to the Film Project or receive any benefit from its production;
3. The entity receiving the donation must be certified as a non-profit entity by the Department of Treasury under Section 1101.01 of the Puerto Rico Internal Revenue Code;
(4) The CPA must certify in his or her audit (whether partial or complete) that the donation was made to an eligible Film Project under the provisions of Code Section 2092.02.

(b) Once the CPA certifies the donation, the DDEC Secretary will prepare and send a certification to the Private Person who made the donation. This certification prepared by the DDEC Secretary shall be submitted to the Department of the Treasury in the Tax Year in which the Private Individual's donation deduction is claimed.

(c) Donations may deduct up to twenty-five percent (25%) of the total tax liability in Puerto Rico of the Private Person.

(d) For purposes of this Article, "Private Person" means a person who does not hold any position in the Government of Puerto Rico, and that their spouse or children do not hold any position in the Government of Puerto Rico.

Article 2092.06(a)-1. - Tax Exemption Periods.

(a) Tax benefits granted under Chapter 9 of Subtitle B of the Code shall become effective on the date outlined in the Decree.

(b) Decrees issued in connection with Film Projects may have an effective date before the filing of a Decree application and will have a term equivalent to the duration of the project, including its exploitation, if they comply with the following procedure:

(1) The applicant will submit a letter of intent to the DDEC Secretary which will evaluate whether the proposal included in the letter of intent is feasible in terms of the incentives and Contributive Credits the Film Project could receive. The letter of intent shall include the following:

(A) Name of the Entity;
(B) Type of Film Project;
(C) Film budget;
(D) Film budget related to Puerto Rico's activities;
(E) Payments to Residents of Puerto Rico;
(F) Payments to Non-Residents of Puerto Rico;
(G) Estimated period of Main Photography.

(2) The DDEC Secretary will evaluate whether such a project is viable for the purposes and requirements set forth in the Code and if in his/her evaluation he/she conclude that the Film Project is viable, he/she will send a "Pre-Conference Letter" with the date of the letter of intent. This will be the effective date for purposes of the Decree even without a fully completed application. The Pre-Conference Letter will contain the information included
in the letter of intent, the date the letter of intent was submitted, and instructions for formally applying for the Executive Decree.

(c) Decrees issued to Study Operators will have a term of fifteen (15) years and the Study Operator who has a Decree will have the option of choosing the specific Fiscal Years to be covered in terms of their income tax, patent or property tax as outlined in Section 2092.06 of the Code.

(c) Decrees issued under the provisions of Chapter 9 ofSubtitle B of the Code shall be transferable, subject to the provisions of Section 6020.07 of the Code.

SUBCHAPTER C. - SPECIAL PROVISIONS

Article 2094.01(a)-1. - Establishment of Creative Industries Development Districts.

(a) The DDEC Secretary shall designate parcels of land designated as Creative Industries Development Districts. Such geographical areas shall consist of property or real estate dedicated to the development, construction and operation of Studios and other related developments in accordance with the purposes and provisions of the Code and these Regulations.

Article 2094.01(a)-2. - Application for Creative Industries Development District Designation.

(a) The procedure for the designation of a Creative Industries Development District may be initiated on its own initiative by the DDEC Secretary or by any Principal Promoter engaged in the development or operation of Studies, or Related Development, through the submission of an Application for Designation. It shall not be necessary for the Owner of the parcel(s) comprising the Proposed Creative Industries Development District to submit the Application for Designation, provided that the Lead Promoter processing the Application for Designation provides evidence of the agreement of the Owner of the parcel(s) comprising the entire Proposed Creative Industries Development District to the designation of the parcel(s) as a Creative Industries Development District.

Article 2094.01(a)-3. - Content of Application for Creative Industries Development District Designation.

(a) All Requests for Designation must be directed to the DDEC Secretary and filed with the Incentive Office. The date of filing shall be deemed to be the date the application is evidenced as having been filed with the Incentive Office.
(b) The Lead Promoter or Titleholder shall submit the Request for Designation in the form of an affidavit and shall submit with the Request for Designation the following information:

1. Description of the specific parcels that make up the proposed Creative Industries Development District, including their location, qualification, outstanding features, agricultural, historical, scenic, cultural or natural importance, and current and past uses;

2. Explanatory memorandum detailing the reasons for the designation of such plot(s) as a Creative Industries Development District and the experience of the Lead or Title Developer in developing Studies for Film Projects or Related Developments;

3. Location maps or aerial photography at a scale of 1:20,000 of the plot(s) that make up the proposed Creative Industries Development District;

4. Plan or cadastral map that includes the parcels adjacent to the parcel(s) that make up the proposed Creative Industries Development District and a description of the uses to which they are put;

5. Development plan ("master plan"), schematic plan or sketch of the proposed Study or Related Development for the proposed Creative Industries Development District on a suitable scale;

6. Detailed budget of the proposed Study or Related Development;

7. Sources of funding for the Study or Related Development, including:
   (A) Letter of credit issued by a financial entity duly authorized by OCFI for a minimum amount of twenty percent (20%) of the budget of the Study or Related Development;
   (B) Evidence of capital investments to the entity that will serve as the Principal Promoter for a minimum amount of fifty percent (50%) of the estimated cost of the Study or Related Development or any other evidence that the DDEC Secretary deems satisfactory to evidence the sources of funding for the Study or Related Development;
   (C) The funding sources listed above must demonstrate that they have at least twenty percent (20%) of the total Pre-Development Expenditures, the cost of purchasing or leasing the constituent parcels of the Creative Industries Development District and/or some of the "hard costs" of developing the Study or Related Development. For purposes of this subsection, "hard costs" shall be those permitted by the DDEC Secretary, excluding the costs of professional services, administrative services, architecture, engineering, design, consulting, and those others that are considered "soft costs", as that term is used in the construction industry;
(D) Feasibility study on the proposed Study or Related Development;

(E) Title study or registry certification issued for the corresponding section of the Property Registry identifying the Owner of each of the parcels that make up the Proposed Creative Industries Development District;

(F) In the event that the Lead Developer submitting the Application for Designation is not the Owner of all of the parcels that make up the Proposed Creative Industries Development District, evidence of the Owners' agreement to all of the parcels that make up the Proposed Creative Industries Development District by means of an Affidavit in which the Owner (i) authorizes the Lead Developer to represent him; (ii) acknowledges the possibility of payment of taxes; and (iii) provides and certifies documents attesting to the identity of such Persons, such as a driver's license in the case of natural persons and organizational charter documents, in the case of legal persons;

(G) Any other document that facilitates the evaluation of the designation of the parcels in question as a Creative Industries Development District.

(c) In those cases where the designation process is initiated by the DDEC Secretary on his own initiative, the Secretary may evaluate any information available to him for purposes of initiating the process of designating a certain area as a Creative Industries Development District.

(d) For purposes of this Chapter, "Proposed Creative Industries Development District" means a Creative Industries Development District for which an Application for Designation has been filed, or the process for self-designation has been initiated by the DDEC Secretary, but a favorable Designation Determination has not yet been granted, or the process for self-designation has been completed by the DDEC Secretary.

**Article 2094.01(a)-4. - General Procedure for Determinations of the DDEC Secretary.**

(a) Upon submission of an Application for Designation, the DDEC Secretary shall evaluate the application and proceed to issue an initial favorable or negative Designation Determination within thirty (30) calendar days of receipt of the Application for Designation. If the DDEC Secretary does not issue an initial favorable or negative Determination of Designation within that time, the Application for Designation shall be deemed denied. In the case of an Application for Designation for which an initial favorable Designation Determination has been issued and a Notice of Intent has been published as provided in Section 2094.01(a)-6 of these Regulations, the DDEC Secretary shall issue his or her final Designation Determination within thirty (30) calendar days of the publication of the applicable Notice of Intent, or of the public hearings, if applicable.
Any Designation Determination will be notified electronically through the Portal with acknowledgement of receipt to the Person submitting the Designation Application, or their legal representative, if so authorized, and all other parties who have submitted comments and/or have been recognized as Parties of Interest in the Creative Industries Development District in the Designation Application, or their legal representative, if so authorized, and will be considered notified on the day of mailing by certified mail with acknowledgement of receipt.

Article 2094.01(a)-5. - Criteria to be Evaluated for the Designation of a Creative Industries Development District.

(a) In evaluating the designation of a proposed Creative Industries Development District, the DDEC Secretary shall take into consideration, among other factors, the following factors:

1. Existence of an application for a Decree by a Lead Developer who is interested in developing a Studio or Related Development and the desirability of the person designated as the Studio Operator operating the Studio in the Proposed Creative Industries Development District;

2. The comments and recommendations received following the publication of the Notice of Intent to Designate;

3. The development plan ("master plan"), proposed budget and the feasibility study for the proposed Creative Industries Development District;

4. The experience of the Lead Developer applying for the Creative Industries Development District designation developing similar projects;

5. The likelihood that the designation of the Creative Industries Development District will have the effect of promoting Puerto Rico as a tourist destination or filming destination;

6. The probability that the designation of the Creative Industries Development District will have the effect of promoting economic development or job creation in Puerto Rico by establishing a Study or Related Development;

7. Existence of outstanding characteristics, such as the agricultural, historical, scenic, cultural or natural importance of the area, that cannot be harmonized with the establishment of projects related to a Creative Industries Development District;
Incompatibility of current and past uses in the area with the designation of a Creative Industries Development District in a manner that materially and adversely affects the health, safety and public welfare of a region; and

Any other factor that, in the opinion of the DDEC Secretary, makes the designation of the area as a Creative Industries Development District imminent because it does not promote the best interests of Puerto Rico and/or the purposes of the Code.

(b) In awarding contracts for the operation of Creative Industries Development Districts, as provided in Section 2094.01(g) of the Code, the DDEC Secretary shall consider the experience of the Person or Entity in operations and/or management of projects or businesses related to the Creative Industries or Film Projects. The DDEC Secretary shall determine the requirements and documents to be submitted for the evaluation of the Persons or Entities interested in these contracts, in the Call for Proposals he conducts for the award of the contract.

**Article 2094.01(a)-6. - Notice of Intent to Designate.**

(a) Once the DDEC Secretary begins the process of designating a geographic area and/or specific parcels as a Creative Industries Development District, either on his own initiative or as a result of an initial favorable Designation Determination, the DDEC Secretary shall publish one (1) public notice in Spanish and in English in one (1) newspaper of general circulation in Puerto Rico and on the DDEC’s website. The Notice of Intent shall be published no later than fifteen (15) calendar days after an initial favorable Designation Determination is issued on the Application for Designation or the DDEC Secretary has initiated the designation process on his own motion. The Notice of Intent shall be intended to notify any interested party that the DDEC Secretary intends to designate an area as a Creative Industries Development District. The Notice of Intent shall contain the following information:

(1) Name and logo of the DDEC;

(2) Name, address and phone number of the contact person at the DDEC;

(3) Brief description of the nature of the issue or proposed action;

(4) Physical address and/or boundaries of the parcels or geographic area that would comprise the proposed Creative Industries Development District;

(5) Citation of the legal provisions authorizing the proposed matter or action;

(6) E-mail and postal address where comments will be directed;

(7) A warning of the fifteen (15) calendar day period from publication of the Notice of Intent to submit comments to the DDEC. No communication received outside of the comment period shall become part of the administrative record; and

(8) The date, time and place of any public hearings, if applicable.
Article 2094.01(a)-7. - Public Views.

(a) The assessment to designate a Creative Industries Development District will not require public hearings. The DDEC Secretary may, in his sole discretion, hold public hearings to receive comments regarding an Application for Designation of a Creative Industries Development District.

Article 2094.01(a)-8. - Denial of Application or Cancellation of Designation.

(a) The DDEC Secretary may choose to deny an Application for Designation of an area as a Creative Industries Development District, provided that such decision is consistent with the Code and/or public policies adopted by the Government of Puerto Rico.

(b) Among the factors to be considered in denying a Request for Designation, the DDEC Secretary may consider the criteria set forth in Article 2094.01(a)-5 of these Regulations. The DDEC Secretary may deny a Request for Designation if during the evaluation of the Request for Designation, the DDEC Secretary decides to initiate an auction process for the construction of a Study or Related Development or if an auction is in progress for this purpose. In the event of a negative Designation Determination, a warning of the right to request reconsideration and to file the available appeal for review under Section 2094.01(a)-9 and Section 2094.01(a)-10 of these Regulations, respectively, shall be included.

(c) Once the DDEC Secretary has designated a proposed Creative Industries Development District as a Creative Industries Development District, such designation may not be cancelled or revoked unless

1. Failure to comply with the conditions imposed by the DDEC Secretary for the designation of the Creative Industries Development District in the Final Favorable Designation Determination and Restrictive Conditions Certification
2. The development of a Creative Industries Development District is not begun and completed within the time period specified in the final favorable Designation Determination from the DDEC Secretary;
3. The term for which the Creative Industries Development District has been designated is fulfilled;
4. The Decree granted to the Lead Developer or the Study Operator is revoked, without the latter being replaced on or before thirty (30) days from the revocation of the Study Operator's Decree in the designated Creative Industries Development District, as provided in Section 6020.09 of the Code; or
5. When the DDEC Secretary determines that such cancellation or revocation will be in the best interest of Puerto Rico and/or the purposes of the Code and these Regulations.
(d) Once a Creative Industries Development District is designated, the DDEC Secretary may not cancel the designation without first granting the Parties with an interest in the Creative Industries Development District an administrative hearing at which they are given an opportunity to present evidence opposing the cancellation of the Creative Industries Development District designation.

(e) The DDEC shall notify in writing all Parties with an interest in the Creative Industries Development District or their legal representative, if authorized, of the date, time and place of the administrative hearing. Notice shall be given by certified mail, return receipt requested, or in person, not less than fifteen (15) calendar days prior to the date of the hearing, except where, for good cause shown in the notice, it is necessary to shorten that period. The notice shall contain the following information:

1. Date, time and place of the hearing, as well as its nature and purpose;
2. Note that Parties with an interest in the Creative Industries Development District may appear in their own right or with the assistance of counsel;
3. Citation of the legal or regulatory provision authorizing the hearing;
4. Reference to the legal or regulatory provisions allegedly infringed;
5. If a violation is imputed to them and to the facts constituting such violation; and
6. Notice of the actions the DDEC Secretary may take if the Parties with an interest in the Creative Industries Development District do not appear at the hearing.

(f) Parties with an interest in the Creative Industries Development District may avail themselves of the remedies for review provided in Section 2094.01(a)-10 of these Regulations. The DDEC Secretary's Appointment Determination to cancel the designation of the Creative Industries Development District shall be notified in writing by certified mail, return receipt requested, to the Parties with an interest in the Creative Industries Development District or their legal representative, if authorized.

Article 2094.01(a)-9. - Reconsideration.

(a) If the DDEC Secretary does not issue an initial favorable Designation Determination within thirty (30) calendar days of receipt of an Application for Designation or issues a negative Designation Determination, the adversely affected party may file a motion for reconsideration with the DDEC Secretary. The motion for reconsideration must be filed within twenty (20) days of the date of the request: (i) the date of notification of the negative Determination of Designation; or (ii) the date the thirty (30) days from the filing of the Application for Designation on which no initial favorable Determination of Designation is issued, as applicable.

(b) The DDEC Secretary may consider the motion for reconsideration within thirty (30) days of its filing and issue a favorable Determination of Designation on the motion for
reconsideration. If the DDEC Secretary flatly rejects the motion for reconsideration or fails to issue a favorable Determination of Designation on the motion for reconsideration within thirty (30) days, the time period for seeking judicial review set forth in Section 2094.01(a)-10 of these Regulations shall begin to run from the time notice of the DDEC Secretary's negative Determination of Designation on the motion for reconsideration is served or from the expiration of the thirty (30) day period, as the case may be.

**Article 2094.01(a)-10. - Recourse for Review.**

(a) Except as provided in these Regulations, a party adversely affected by a negative Appointment Determination of the DDEC's Secretary and who has exhausted all administrative remedies provided by the DDEC, may file a petition for review with the Court of Appeals within thirty (30) days from the date of notification of the final negative Appointment Determination of the DDEC's Secretary. The party shall notify the DDEC Secretary and all parties, if any, of the filing of the petition for review within the time period for requesting such review.

**Article 2094.01(b)-1. - Government of Puerto Rico Property and its Transfer for Designation Purposes.**

(a) The parcels of land designated or to be designated as part of the Creative Industries Development Districts owned by the Government of Puerto Rico may be transferred for the amount and under the terms and conditions established by the Owner of the parcels in question and the DDEC Secretary, once the final favorable Designation Determination is issued. Such transfer may even be made by means of a deferred price, with or without the need of collateral and/or in exchange for a capital interest. The decision to transfer land parcels designated or to be designated as part of the Creative Industries Development District shall not be considered a final Designation Determination by the DDEC, subject to the review remedy contained in Section 2094.01(a)-10 of these Regulations. It shall not be a requirement for designation of a Creative Industries Development District that the transfer be made at the time of designation.

(b) The DDEC Secretary may impose such conditions on the transfer of real estate property that is part of the Creative Industries Development Districts as he deems consistent with the purposes of advancing the development, construction, expansion and/or operation of the Creative Industries Development District and furthering the purposes of the Code and these Regulations. At the request of any of the Parties with an interest in the Creative Industries Development District, the DDEC Secretary shall certify in writing that the corresponding transfer complies with these Regulations. The certification to be issued by the DDEC Secretary is final, non-reviewable and
opposable before third parties for any legal purposes and a certified copy of it shall accompany any public deed or document presented in the Property Registry of Puerto Rico.

**Article 2094.01(d)-1. - Restrictive Conditions in Creative Industries Development Districts.**

(a) The parcels that constitute part of the Creative Industries Development Districts may be encumbered by any: (i) restrictive conditions, such as easements in equity; (ii) governing regime; (iii) rule or regulation; and (iv) any architectural, design and/or construction guidelines that the DDEC Secretary deems necessary for the implementation of the purposes of the Code, which shall be listed in the Certification of Restrictive Conditions to be issued by the DDEC Secretary. In addition to the conditions set forth in the Certification of Restrictive Conditions, the Lead Developer may submit for approval by the Secretary of DDEC, any additional restrictive conditions which it believes should be set forth in the Creative Industries Development District or in any parcel which is part of the Creative Industries Development District. Upon the request of the Lead Developer, the DDEC Secretary may issue a revised Certification of Restrictive Conditions to include the conditions requested by the Lead Developer. For these purposes, the following procedure shall be followed:

1. Once the DDEC Secretary issues the final Certification of Restrictive Conditions imposing any of the conditions authorized in Section 2094.01(d) of the Code, the Lead Developer shall be obligated to file the conditions set forth in the Certification of Restrictive Conditions in a public deed before the corresponding section of the Land Registry and the same shall be deemed valid and final for all legal purposes and shall not be subject to review except as provided in paragraph (3) of this subsection (a).

2. Notwithstanding the preceding paragraph, any of the restrictive conditions imposed upon the Creative Industries Development District or on any of the parcels or components within a Creative Industries Development District may be amended, cancelled, revoked or modified at any time, from time to time, by the Lead Developer, with the written approval of the DDEC Secretary, without the consent of the Owners of the encumbered parcels.

3. Any violation of the restrictive conditions established pursuant to this Article shall be sufficient reason for the DDEC Secretary to deny any benefits granted or to be granted under the Code, including benefits granted under a Decree, to Parties with an interest in the Creative Industries Development District or any other Person related to the Creative Industries Development District who has violated such restrictive conditions.
(4) If there is a restrictive condition establishing the term of effectiveness of the Creative Industries Development District designation, the benefits granted or to be granted under the Code by reason of the Creative Industries Development District, including the benefits granted under an Executive Decree, to Parties with an interest in the Creative Industries Development District, or any other Person related to the Creative Industries Development District, shall automatically terminate upon the expiration of such term.

Article 2094.01(e)-1. - Levies and Charges on a Designated Creative Industries Development District.

(a) The DDEC Secretary may:

(1) Set from time to time by means of a certification, the Impositions that it understands necessary on any parcel or component of the Creative Industries Development District;

(2) Impose and collect charges on: (1) the conveyance of any interest in real property owned by the Creative Industries Development District; and/or (2) on the construction of any improvements in the Creative Industries Development District to pay for:

(A) The construction of improvements and infrastructure in common areas of the Creative Industries Development District

(B) The maintenance and repair of common areas in the Creative Industries Development District

(C) The costs of landscaping, security, signage and/or lighting in the Creative Industries Development Districts; and

(D) The provision of common services in the Creative Industries Development Districts, without the understanding that such charges, fees or spills constitute taxation. This subsection shall not apply to properties owned by a municipality.

(b) Once the Tax Certificate has been issued, it shall be considered valid and final for all legal purposes, opposable against third parties and not subject to review. Third parties, such as financial institutions, investors and developers, may rely on the final nature of such certification. In addition:

(1) All Titleholders in the relevant Creative Industries Development District shall be required to pay to the Lead Developer or the person named in the Certification of Assessments, the approved Assessments as provided in paragraph (a) and (c) of this Article, which shall be uniformly assessed against Titleholders in the Creative Industries Development District.
(2) No Owner may exempt himself from his obligation to pay any Taxes on his property by waiving the use and enjoyment of the common elements or by abandoning his property or right to his property, as applicable.

(3) Any penalties, late fees or interest to be paid for late payment of authorized Taxes on the Creative Industries Development District or any of the parcels or components of the Creative Industries Development District shall be determined, fixed and imposed as specified in the Certification of Taxes approved by the DDEC Secretary.

(4) A voluntary acquirer shall be jointly and severally liable for any Taxes due at the time of acquisition. Such voluntary acquirer shall be entitled to be reimbursed by the seller for any amount paid by the seller to satisfy any unpaid Taxes up to and including the day of the closing of the transfer in question. This paragraph shall not apply to property owned by a municipality.

(c) Pursuant to Section 2094.01(f) of the Code, a legal encumbrance is established on the geographic area, specific parcels of land designated as a Creative Industries Development District, and real estate components, to ensure the collection of the Taxes assessed and/or imposed as authorized by Section 2094.01(e) of the Code and this subsection. Such lien shall have priority over any other lien, regardless of its nature, except for the lien securing assigned tax debts owed under the provisions of Act No. 21 of 1997, as amended, known as the "Tax Debt Sale Act"; the lien in favor of the Municipal Revenue Collection Center ("CRIM") securing the collection of real property taxes; the lien securing the collection of assessments under Act No. 2094.01(e) of the Code; and the lien securing the collection of taxes under Act No. 207 of 1998, known as the "Tourist Improvement District Act of 1998", as amended; the lien that guarantees the collection of the special tax on properties located within a Commercial Improvement District or a Residential Improvement Zone, authorized by the Autonomous Municipalities of Puerto Rico Act of 1991; and any other lien that guarantees the payment of taxes used to finance public infrastructure.

(d) The legal lien will be enforceable against anyone who owns property in a Creative Industries Development District, even if their title has not been registered in the Property Registry. This section shall not apply to property owned by a municipality.

Article 2094.01(c)-1. - Joint Zoning Regulations.

(a) The DDEC Secretary and the President of the Planning Board of Puerto Rico will issue a joint regulation for the development, zoning and use of the parcels designated as Creative Industries Development District. Said regulation will be issued within six (6) calendar months after the designation of the first Creative Industries Development District and it will be the only legal provision that will govern the uses to be
established in the Creative Industries Development Districts designated or recognized by the DDEC Secretary, and the manner in which they will be requested and the terms in which the permits, certifications and authorizations for the development, zoning and use of the Creative Industries Development Districts will be issued. However, until joint regulations are enacted or a district is designated at the request of a Lead Promoter, the following municipalities are designated as Creative Industries Development Districts:

1. San Juan
2. Guaynabo
3. Bayamón
4. Carolina
5. Caguas
6. Fajardo
7. Ponce
8. Mayagüez
9. Arecibo

(b) Such joint zoning regulations shall apply both to all parcels that are designated as part of the Creative Industries Development District at the time such district is designated and to parcels that are subsequently added to the Creative Industries Development District pursuant to a Request for Designation to that effect to the DDEC Secretary by the Principal Promoter or its authorized representative.

(c) The joint zoning regulations shall provide that the parcels designated as Creative Industries Development Districts shall be subject to the restrictive conditions established by public deed as a condition for maintaining their zoning, including, but not limited to, a term established during which the designation shall be effective, as provided in the Certification of Restrictive Conditions issued by the DDEC Secretary with respect to the Creative Industries Development District.

(d) If there is a term established as a restrictive condition during which the designation will be effective, according to the provisions of the Certification of Restrictive Conditions issued by the DDEC Secretary in relation to the Creative Industries Development District, the designation as Creative Industries Development District and all that this entails will automatically terminate upon the expiration of said term. This automatic termination may result in a variation of zoning in the parcels comprising the Creative Industries Development District which at the time of revocation have not been developed.
CHAPTER 10. - ENTREPRENEURSHIP

SUBCHAPTER A. - RESERVED

SUBCHAPTER B. - RESERVED

SUBCHAPTER C. - REQUIREMENTS FOR THE GRANTING OF EXEMPTION

Article 2100.01(c)-1. - Young Entrepreneurs.

(a) Requirements. - Young Entrepreneurial New Businesses wishing to receive the tax benefits provided by Section 2100.01(b) of the Code shall comply with the following and submit the applicable information required by Section 6020.01(b)(2)-1 and Section 6020.01(b)(2)-3 of these Regulations:

(1) Meet the requirements of the definition of Young Entrepreneur as defined in Section 1020.02(a)(9)-1 of these Regulations;

(2) Meet the requirements of the definition of New Business as defined in the Code; and

(3) Any other requirements as may be established from time to time by the DDEC Secretary through administrative determination, circular letter or newsletter.

CHAPTER 11. - OTHER INDUSTRIES

SUBCHAPTER A. - RESERVED

SUBCHAPTER B. - TAX BENEFITS

Article 2110.01(b)(1)-1. - Revenue Contribution of an Air Carrier.

(a) General rule. - Net income from the eligible activity described in subsection (a) of Section 2110.01 of the Code shall be exempt for the entire period of the exemption provided by the Decree.

(b) Determination of net income. - Net income from the eligible activity described in paragraph (a) of Section 2110.01 shall be computed pursuant to Section 1035.07 of the Internal Revenue Code.
Article 2110.02(b)(2)-1. - Imputation on Distributions by a Public Carrier of Ocean Transportation Services

(a) The distribution of dividends or profits by a Person covered by the provisions of Section 2110.02 of the Code, who has not enjoyed or is not enjoying exemption, and who, on the date of commencement of exempt shipping operations, has accumulated a taxable surplus, shall be deemed to be made from the undistributed balance of the surplus; provided that, after the surplus has been exhausted by virtue of the distribution, the provisions of paragraph (c) of this Article shall apply.

(b) The distribution of dividends or profits made by a Person who has enjoyed or is enjoying an exemption shall be deemed to be made from the surplus accumulated during the period in which he has enjoyed or is enjoying the exemption and shall be governed by the provisions of the laws under which it has been governed; provided that, once the surplus has been exhausted by virtue of the distribution, the provisions of paragraph (c) of this Article shall apply.

(c) Except as provided in paragraphs (a) and (b) of this Article, a distribution of dividends or benefits by a Person receiving a benefit under Section 2110.02 of the Code shall be deemed to be from the most recently accumulated profits and benefits and shall be exempt in the same proportion as the income was exempt, for

1. A Domestic Person;
2. A Foreign Person who is not obligated to pay in any jurisdiction outside of Puerto Rico, any contribution on his income derived from any source in Puerto Rico;
3. A Foreign Person who, due to the laws of the country where he resides, cannot use as an income deduction or as a credit against the contribution payable in the country on the dividends or benefits derived from a Person exempted under the Code, the contribution that would be imposed in Puerto Rico on the dividends or benefits;
4. A Foreign Person who, due to the laws of the country where he resides, can only partially use as an income deduction or as a credit against the contribution payable in the country on the dividends or benefits derived from a Person exempted under the Code, the contribution that would be imposed in Puerto Rico on the dividends or benefits.

(A) The exemption provided in paragraph (4) of this section (c) shall apply only to that portion of the income tax applicable in Puerto Rico on the dividends or benefits that is not deductible from income or creditable against the contribution to be paid in the country on the dividends or benefits.
(5) A Person who wishes to avail himself or herself of the provisions of paragraphs (3) and (4) of this subsection (c) shall submit to the Secretary of DDEC a translated, certified or authenticated copy in Spanish or English of the applicable laws or regulations of the country in which he or she resides, specifically indicating the provisions of those laws or regulations that apply to him or her, along with any other information or evidence showing that the Person or Entity qualifies under paragraphs (3) and (4) of this subsection (c).

(d) **Translation, certification or authentication.** - The translation, certification or authentication required by paragraph (5) of subsection (c) of this Article, must be done through a sworn statement notarized by a Person who is duly authorized by the Supreme Court of Puerto Rico to practice the legal profession and notarized in Puerto Rico.

(e) For purposes of the Code and these Regulations, when the Code refers in Section 2110.02(b)(2) to the phrase "subject to the provisions of this Subchapter" it shall mean that the Code and these Regulations refer to "Chapter 11 of Subtitle B of the Code.

**Article 2110.03(c)(1)-1. - Incentive to Cruise Ship Companies.**

(a) Means the discount to be granted to a Cruise Owner, pursuant to paragraph (1) of section (c) of Section 2110.03 of the Code, for each Passenger who pays the full amount of the Passenger Tariff or the Port Tariff in force. Any decrease in the Port Tariff shall reduce the incentive by an equal amount.

(b) **Monthly report.** - To receive the tax benefit provided for in paragraph (1) of subsection (b) of Section 2110.03 of the Code, each Cruise Ship Owner shall file with the DDEC Secretary a report at the end of each month, or on the date agreed upon by the Cruise Ship Owner and the DDEC Secretary if a different date has been agreed upon, which shall include the following information

1. Name of the Cruise operated by the Cruise Owner, which uses the public marine facilities in any Puerto in the Jurisdiction of Puerto Rico;
2. The name of the Puerto in the Jurisdiction of Puerto Rico;
3. The date of arrival to Puerto Rico in the Jurisdiction of Puerto Rico
4. The time that the Cruise stayed in the Port in the Jurisdiction of Puerto Rico;
5. The number of Passengers during the reporting period; and
6. Certified copy of the summary of the docking manifest for all Cruises visiting any Port in the Jurisdiction of Puerto Rico, including the number of Passengers who paid in full the Passenger Fee or Port Fee in force, as the case may be. The manifest must include the time incurred by each Cruise in any Port in the Jurisdiction of Puerto Rico.

(c) **Requirement of number of Passengers in the Cruise** - Every Cruise Owner must have and continue to promote a total amount not less than the number of Passengers
that traveled, embarked or disembarked in any Port in the Jurisdiction of Puerto Rico, during the Fiscal Year prior to the approval of the incentive, and that paid the Passenger Fare or the Port Fare, as the case may be.

(d) **Statistics.** - For statistical purposes, the monthly report of section (b) of this Article, shall include the number of Passengers that disembark in any Puerto of the Jurisdiction of Puerto Rico.

**Article 2110.03(c)(1)-2. - Cruise Projection Report.**

(a) As of Fiscal Year 2020-2021, all Cruise Owners must file with the DDEC Secretary, through the Portal, a complete report detailing the Cruise schedule and passenger volume for the next Fiscal Year.

(a) The report shall be filed on or before the thirty-first (31st) day of May of each Fiscal Year and shall include

1. Name of the Cruise;
2. Date of robbery;
3. Number of Passengers on the Cruise;
4. Number of employees on the Cruise;
5. A list detailing the schedule of all Cruises that will dock in any Puerto Rico Jurisdiction; and
6. The estimated number of passengers per trip in each Fiscal Year.

(b) The report established in section (b) of this Article, shall be updated quarterly by the Cruise Owner, with the Tourism Office, in order to maximize the use of the docks.

**Article 2110.03(c)(1)-3. - Authorization for Inspection of Cruise Ship.**

(a) Any Cruise Ship Owner who receives a tax benefit under Section 2110.03 of the Code authorizes the DDEC Secretary to inspect the Cruise Ship and its facilities, following the parameters established in the industry and the regulations, administrative determination, circular letter, newsletter or any other official communication of a general nature that the DDEC Secretary publishes for that purpose.
Article 2110.03(c)(2)-1. - Incentive for Frequency of Visits ("Home Port").

(a) Means the discount that will be granted to a Cruise Owner for each Passenger, pursuant to paragraph (2) of paragraph (c) of Section 2110.03 of the Code, for using any Port in the Jurisdiction of Puerto Rico, as a home port in their schedule.

(c) General rule. - The DDEC Secretary shall provide:

(1) One dollar ($1.00) per Passenger to the Owner of the Cruise or its operator, as the case may be, using any Port in the Jurisdiction of Puerto Rico as a home port for twenty (20) visits or less during the period of one Fiscal Year;

(2) Two dollars ($2.00) per Passenger to the Owner of the Cruise or its operator, as the case may be, who uses any Port in the Jurisdiction of Puerto Rico as a home port from visit number twenty-one (21) during the period of one Fiscal Year. As of visit number fifty-three (53) in the Fiscal Year, the Cruise Owner or its operator, as the case may be, will receive a contribution of three dollars ($3.00) per Passenger.

Article 2110.03(c)(4)-1. - Port Time Incentive for Cruise Ships in Transit.

(a) Means the discount that will be granted to a Cruise Owner for each Passenger, pursuant to paragraph (4) of section (c) of the Code, for docking and remaining in any Port in the Jurisdiction of Puerto Rico for a determined period of time.

Article 2110.03(c)(5)-1. - Incentive Provisions and Services.

(a) Means the discount that shall be granted to a Cruise Ship Owner pursuant to paragraph (5) of section (c) of the Code, that docks at any Port in the Jurisdiction of Puerto Rico, for the purchase of food and beverages from a Local Supplier certified by the DDEC Secretary.

(1) Local Supplier. - Means any Domestic Person or Foreign Person, as the case may be, engaged in the storage, classification, sale or transportation of provisions to Cruise ships docking in any Port in the Jurisdiction of Puerto Rico.

(A) In the case of a Domestic Person organized outside the laws of Puerto Rico, he must be authorized to do business in Puerto Rico by the Department of State and generate direct employment in the industries or businesses of storage, classification, sale or transportation of supplies to Cruise ships that dock in any Port in the Jurisdiction of Puerto Rico and that have a real and tangible impact on the economy of Puerto Rico.

(B) A Domestic Person organized outside the laws of Puerto Rico shall not be considered a Local Supplier to the extent that he or she engages only in one of the industry or business activities mentioned in subsection (A) of this paragraph (1), or engages only in transshipment.
(2) **Certified Local Supplier.** - Means a Person who is a supplier of goods and products in Puerto Rico, certified by the DDEC Secretary, through the Tourism Office, registered in the Merchants Registry of the Department of the Treasury and registered as an eligible supplier in an annual list to be published by the DDEC Secretary.

(b) **General rule.** - Every Cruise ship that docks in any Puerto in the Jurisdiction of Puerto Rico shall be eligible to receive an incentive equivalent to ten percent (10%) of the expense for the purchase of provisions or the contracting of maintenance services or repairs of the Cruise ship in Puerto Rico, excluding materials, products or equipment installed in the offering of the service, according to the provisions of Regulation No. 8521 of the Trade and Export Company, or any other regulation, administrative determination, circular letter, newsletter or any other official communication of a general nature published by the DDEC.

(c) **Purchasing incentive.** - An additional five percent (5%) incentive will be offered for purchases of Puerto Rico manufactured products, as certified by the Puerto Rico Industrial Development Company, or Puerto Rico agricultural products, as certified by the Department of Agriculture.

(1) **Agricultural product.** - Means the provisions of Article 1020.08(a)-11 of these Regulations, providing that, the raw product planted or grown in Puerto Rico, including ornamental plants and flowers, as well as a local processed agricultural product, according to the definitions and certifications of the Department of Agriculture of Puerto Rico and published by the DDEC Secretary in an annual listing.

(d) **Additional discount.** - An additional discount will be granted to any Cruise Owner who purchases a Manufactured Product in Puerto Rico.

(1) **Product manufactured in Puerto Rico.** - This term shall have the same meaning as provided in paragraph (7) of subsection (a) of Section 1020.06 of the Code and Article 1020.06(a)(13)-1 of these Regulations, relating to the definitions applicable to manufacturing activities.

(e) **Exclusion.** - The incentives contemplated by this Article exclude those berthing services required by all Cruise ships in each of the ports they visit.

(f) **Evidence.** - Every Cruise Ship Owner or its operator, as the case may be, that complies with the provisions of this Article shall receive the benefits after having evidenced, to the satisfaction of the corresponding agencies, that the purchases were made from a Person or Entity where fifty percent (50%) or more of its shareholders, partners or members, are Domestic Persons, or that manufacture fifty percent (50%) or more of the products object of sale in Puerto Rico.

(1) **Employees' addresses.** - In the case of a Person or Entity dedicated to the offering of services, as defined by Regulation No. 8521 of the Export and
Trading Company, the employees performing the duties must be Domestic Persons.

(2) **Food excluded.** - Transshipment or transfer of merchandise from ports where food or beverage vessels dock directly to the Cruise will not constitute an Eligible Activity for this incentive.

(3) **Certification.** - The merchant or service provider must be certified by the DDEC and comply with all applicable regulations, administrative determinations, circular letters, newsletters or other general communications.

(g) **Reimbursement.** - Every Cruise Ship Owner shall submit a copy of any purchase invoice from any Local Certified Supplier and a record of purchase receipts by the end of each month. Within thirty (30) days from the date the documentation is received by the DDEC Secretary, the DDEC Secretary shall reimburse an amount not to exceed ten percent (10%) of the purchases reported for the previous month.

**SUBCHAPTER C. - RESERVED**

**SUBCHAPTER D. - SPECIAL PROVISIONS**

**Section 2110.03(c)(3)-1. - Bilateral Marketing Program for "Home Port" Cruises.**

(a) **Background.** - The amount of one dollar ($1.00) per Passenger on a Cruise whose voyages originate in any port in the jurisdiction of Puerto Rico will be contributed to each Marketing Program during the period of one Fiscal Year, beginning in Fiscal Year 2019-2020; providing that, to qualify for the incentive, the Cruise Owner must contribute to their Home Port Bilateral Cruise Marketing Program a percentage of the amount of the incentive they claim.

(b) **Percentage of contribution.** - As required by paragraph (3) of Section 2110.03(c) of the Code, the Cruise Ship Owner shall contribute fifty percent (50%) of the amount claimed as an incentive to its Bilateral Home Port Cruise Marketing Program.

(c) For purposes of the Code and these Regulations, when the Regulations use the term "Program", they refer to the "Bilateral Marketing Program for Home Port Cruises".

**Article 2110.03(c)(3)-2. - Home Port Bilateral Cruise Marketing Program Requirements**

(a) Every Cruise Ship Owner who applies for the tax benefits provided for in Section 2110.03 of the Code must certify in the application his intention to develop with the DDEC Secretary a Program for the promotion of Puerto Rico as a tourist destination.

(b) The Program is subject to the following conditions:

(1) The distribution of advertising, informational and promotional material of Puerto Rico or literature written and approved by the DDEC Secretary on
board any Cruise ship of the line that serves any Port in the Jurisdiction of Puerto Rico, not less than one (1) hour prior to its arrival to that port.

(2) Programming in the cabin for the transmission of a welcome script to Puerto Rico no less than one (1) hour prior to the arrival of any Cruise to any Puerto in the Jurisdiction of Puerto Rico. The DDEC will assume the costs for the production of the script and its content will be previously approved by every Cruise Owner, whose approval cannot be unreasonably delayed.

(3) The authorization of every Cruise Owner, at least once a year, allowing the DDEC Secretary to conduct internal seminars and develop familiarization trips for his Cruise personnel in any Puerto in the Jurisdiction of Puerto Rico.

(4) The Program will be executed in writing by every Cruise Ship Owner no later than sixty (60) days after the application for tax benefits is file
SUBTITLE C. - MONETARY INCENTIVES ("CASH GRANTS")
OR TAX CREDITS

Article 3000.01(a)-1. - Tax Credits under Prior Incentive Laws.
(a) An Exempt Business whose Decree has been issued under the Prior Incentive Laws may claim the credits to which it is entitled under such Prior Incentive Laws in lieu of the credit provided for in this Article so long as such credits continue to be available under such Prior Incentive Laws.

Article 3000.01(b)(5)-1. - Return on Investment (ROI).
(b) Return on Investment. - The term Return on Investment as set forth in Section 1000.03 (a) of the Code refers to the relationship between the Benefit of the Tax Credit and the Cost of the Tax Credit resulting from an Incentive Award. This computation is illustrated in Article 3000.01(b)(5)-2 of these Regulations.
(c) The Benefits of the Tax Credit to be taken into consideration shall be those established in Article 3000.01(b)(5)-3(b) of these Regulations.
(d) The Costs of the Tax Credit to be considered shall be as set forth in Article 3000.01(b) (5)-3(a) of these Regulations.

Article 3000.01(b)(5)-2. - Calculation of ROI.
(a) Calculation of ROI
(1) The Cost of the Tax Credit will be reduced by the total Benefits of the Tax Credit.
   (A) The Tax Benefits are listed in Article 3000.01(b)(5)-3(b) of these Regulations and vary according to the Chapter of Subtitle C of the Code for which the Tax Credit is being requested.

(2) The result of the previous paragraph shall be divided by the Cost of the Tax Credit applicable to each Tax Credit.

(3) The following formulas summarize the calculation of paragraphs (1) and (2) above:

\[
\text{Computing} \quad \text{Reference}
\begin{array}{l}
\text{Benefit} \quad \text{Article 3000.01(b)(5)-3(b)} \\
- \\
\text{Cost} \quad \text{Article 3000.01(b)(5)-3(a)} \\
\hline
\text{Partial Result} \\
\div \\
\text{Cost} \quad \text{Article 3000.01(b)(5)-3(a)} \\
\hline
\text{Final Result}
\end{array}
\]

\[
ROI = \frac{\text{Benefits} - \text{Costs}}{\text{Costs}} \times 100\%
\]

(a) Interpretation of the result:

<table>
<thead>
<tr>
<th>ROI</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>ROI &gt; 0%</td>
<td>The application has a positive return and the income to the Government of Puerto Rico exceeds the costs incurred.</td>
</tr>
<tr>
<td>ROI = 0%</td>
<td>The application generates enough income to cover costs.</td>
</tr>
<tr>
<td>ROI &lt; 0% - 99%</td>
<td>The application partially covers the costs incurred</td>
</tr>
<tr>
<td>ROI &lt; -100%</td>
<td>The application does not generate benefits or recover any portion of the costs.</td>
</tr>
</tbody>
</table>

(b) Factors applicable to the calculation of the ROI

(1) For purposes of calculating the factors that make up each Tax Credit Benefit, the percentages or amounts established by the DDEC Secretary shall be used.

(2) These factors, along with their respective percentages or amounts, shall be published at least every three years by the DDEC Secretary through an administrative determination, circular letter or newsletter.
Article 3000.01(b)(5)-3. - Costs and Benefits applicable to the computation of the ROI in requests for Tax Credits.

(a) Cost of the Tax Credit:
   (a) For purposes of calculating the ROI, the Cost of the Tax Credit shall be the total Tax Credit granted under Sections 2012.02, 2013.03, 3010.01, 3020.01, 3030.01, 3050.01 and 6070.56(i) of the Code.

(b) Benefits of the Tax Credit:
   (1) For purposes of calculating the ROI, the Tax Credit Benefit will be as follows:
       (A) Purchases of Products Manufactured in Puerto Rico - Code Section 2012.02
           (i) Reserved
       (B) Purchases of Products Manufactured in Puerto Rico - Code Section 2013.03
           (i) Reserved
       (C) Visitor Economy - Code Section 3010.01
           (i) Taxes paid on direct, indirect and induced jobs created by the construction of new hotels
           (ii) Sales and use tax paid on construction employees
           (iii) Tax benefit on the consumption of non-resident visitors
           (iv) Tax benefit on economic activity from non-resident consumption
           (v) Taxes paid on direct, indirect and induced wages in the hotel industry
           (vi) Current tax paid on room tax
           (vii) Current taxes paid from casino operations
       (B) Manufacturing - Code Section 3020.01
           (i) Taxes paid on direct jobs created
           (ii) Taxes paid on indirect and induced jobs created
           (iii) Sales and use tax paid on consumption
           (iv) Contribution on taxes, patents and CRIM
       (C) Investment in Research and Development - Code Section 3030.01
           (i) Tax on direct employment
           (ii) Taxes on indirect and induced employment
           (iii) Sales and use tax paid on employment
           (iv) Benefit of economic activity by investment in infrastructure
       (D) Creative Industries - Code Section 3050.01
           (i) Taxes paid on direct, indirect and induced jobs created in the total development of the Film Project;
(ii) Sales and use tax paid on the total development of the Film Project;
(iii) Tax benefit on the consumption of the total investment of the Film Project;
(iv) Tax benefit on economic activity from the total investment of the Film Project;
(v) Taxes paid on direct, indirect and induced wages in the Film Project; and
(vi) Current tax paid on room taxes.

(E) Opportunity Zones - Code Section 6070.56(i)
(i) Taxes paid on direct employment
(ii) Taxes paid on indirect and induced employment
(iii) Sales and use tax paid on jobs
(iv) Benefit of economic activity by investment in infrastructure and local purchases
(v) Company income taxes
(vi) Contribution on taxes, patents and CRIM

**Article 3000.02(a)(2)-1. - Use of Tax Credit for Eligible Tourism Investment.**

(a) **Limitation.** - In addition to the additional rules set forth in paragraph (2)(a) of Section 3000.02 of the Code, in the case of a Person or Entity that has a Decree under Chapter 5 of Subtitle B of the Code, the Tax Credit belonging to the Person or Entity may only be used against the tax liability imposed on the Person or Entity and not against the tax liability imposed on its shareholder, partner, or member, such as the withholding liability set forth in Sections 1023.06, 1023.07, 1023.04, 1023.05, 1062.02, 1062.03, 1062.04, 1062.05, 1062.08, 1062.09, 1062.10 or 1062.11 of the Internal Revenue Code ("withholding tax").

(b) **Transference.** - The Person may transfer the Tax Credit to his or her shareholder, partner, or member, pursuant to the provisions of paragraph (d) of Section 3010.01 of the Code, for use by the shareholder, partner, or member against "withholding at source.

(c) **Accreditation.** - Any Investor who is obliged to make an estimated tax payment may use its Tax Credit to be credited to the estimated tax payment. However, the Tax Credit may not be used against the tax imposed by Section 1051.02 of the Internal Revenue Code.
Article 3000.02(a)(2)-2. - Use of Tax Credit for Eligible Tourism Investment of a Conduit Entity.

(a) **General rule.** - Except as provided in this Article, the Contributive Credit generated by the Eligible Tourism Investment of a Person who is a conduit entity, shall be attributable to the shareholder, partner or member of the Person who is a conduit entity, and the attribution shall not constitute a transfer of the Contributive Credit under the provisions of the Code.

(b) **Notification.** - A Person who is a conduit entity shall notify each shareholder, partner or member of his or her distributable interest in the Tax Credit generated by the Eligible Tourism Investment of the Person who is a conduit entity, pursuant to the provisions of the Internal Revenue Code.

(c) **Choice.** - An Eligible Tourism Investment made by a Person who is a conduit entity and who generates a Tax Credit, may elect to use, in whole or in part, the Tax Credit to satisfy his or her tax liability. The Person who is a conduit entity shall notify the DDEC Secretary and the Secretary of the Treasury of the election by means of a written statement to be included with the Person's income tax return, according to the provisions of the Internal Revenue Code, for the Tax Year in which the requirements for the use of the Tax Credit are met. The declaration shall include:

1. The name, address, and employer identification number of the Person who is a conduit entity;
2. The social security number or employer identification number, as the case may be, of the shareholder, partner or member;
3. The total amount of the Tax Credit generated by the Eligible Tourism Investment; and
4. The amount of the Tax Credit attributed to each shareholder, partner or member, if any.

(d) **Effect of not making the choice.** - Except as provided in paragraph (e) of this Article, if a Person who is a conduit entity does not make the election described in paragraph (c) of this Article, the Contribution Credit shall be deemed to be attributed to the shareholder, partner or member.

(e) **Sale.** - A Person who is a conduit entity may sell, assign, or otherwise transfer the Tax Credit generated by the Eligible Tourism Investment. The sale, assignment or transfer shall be considered as an option by the Person who is a conduit entity to use the Contributive Credit at the Person level.
Article 3000.02(a)(3)-1. - Tax Credit for Eligible Tourism Investment in a Condo Hotel.

(a) **General rule.** - The ownership of the Tax Credit shall be of the Exempt Business. However, in the case of a Condo Hotel, and only for purposes of the Tax Credit provided in Section 3010.01 of the Code, the Developer of a Condo Hotel may choose between:

1. Apply for the Tax Credit for yourself; or
2. Reserve it for the buyer of a Condo Hotel unit to claim it.

(b) For purposes of the Code and these Regulations, the term "Condo Hotel" also includes a set of residential units, Tourist Village, building or group of residential buildings converted to the horizontal property regime or to the regime of the Puerto Rico Condo Hotel Law, within a Resort that also complies with one or more of the following requirements:

1. The set of residential units, Tourist Village, building or group of residential buildings holds the brand of an international hotel chain;
2. The Units receive services related to a hotel operation from a Hotel in the Resort; or
3. Units dedicated to the accommodation of transient persons through an Integrated Condo Hotel Leasing Program are managed by the operator of a Hotel in the Resort.

Article 3000.02(a)(4)-1. - Additional Rules for the Granting, Sale and Transfer of Tax Credits

(a) **Generally Applicable Provisions.** - Tax credits granted under this Article of the Regulations and Section 3000.02 of the Code shall be subject to the following:

(A) Tax credits may be carried forward until exhausted. However, the DDEC Secretary is authorized to limit the carryover of such credits by these Regulations.

Article 3000.02(a)(5)-1. - Reimbursement of Tax Credit for Eligible Tourism Investment.

(a) **Limitation.** - Except as provided in paragraph (d) of Section 3000.01 of the Code, no Person who is entitled to a Tax Credit and who does not use it against his tax liability, or assign, sell, or otherwise transfer it, in whole or in part, may apply to the Department of Revenue for payment in cash of the amount of the Credit he has not used.

(b) **Accreditation.** - When the Tax Credit is used against the "withholding at source", the Person may elect to have the Tax Credit credited first, and to have the excess of the "withholding at source" reimbursed after the Tax Credit used is applied.
Article 3000.02(b)-1. - Determination of Total Tax Credit to be Awarded.

(a) Chapters one through five of Subtitle C of the Code and Sections 2012.02 and 2012.03 of the Code establish parameters within which the DDEC Secretary may grant a Tax Credit to an Exempt Business.

(b) Except as provided in paragraph (g) of this Article, in determining the total Tax Credit to be granted to the Exempt Business, the criteria set forth in paragraph (c) of this Article shall be considered. Each criterion shall be granted a evaluation percentage when the Exempt Business complies with it. The sum of the percentages of all criteria shall determine the total percentage of Tax Credit to be granted within the maximum allowed in the respective Chapters of Subtitle C of the Code and Section 2012.02 of the Code.

(c) Criteria to be considered. –

(1) ROI. - The result of the calculation of the ROI, according to the Article, will be considered for the evaluation percentage in the following way:
   (A) 0% - 50% - will receive a 75% evaluation.
   (B) 51% - 99% - will receive a 90% evaluation.
   (C) 100% or more - you will receive a 100% evaluation.

(2) Permits. - Exempt Businesses that demonstrate that they have the permits required by the various agencies of the Government of Puerto Rico to carry out the Film Project will receive a 2.50% evaluation.

(3) Availability of funds. - The Exempt Business that demonstrates that it has funding sources to cover at least 75% of the total expenses and/or costs of the Film Project will receive a 2.50% evaluation.

(4) Purchase of products manufactured in Puerto Rico. - Exempt Businesses that demonstrate that they have purchased products manufactured in Puerto Rico, that are at least eighty percent (80%) of the total products required for the operation of the Film Project, and that are available in Puerto Rico, will receive a 2.50% evaluation.

(5) Export. - The Exempt Business that proves to have contracts granted for the export of the Film Project will receive a 2.50% evaluation.

(d) In the event that the result of the ROI calculation results in a percentage lower than zero, the request for a Tax Credit will be denied. However, the DDEC Secretary may consider additional criteria to those set forth in paragraph (c) of this Article to grant the Tax Credit and establish the total percentage to be granted, provided that in doing so, the purposes and objectives of the Code are furthered. The DDEC Secretary may consider, among others, the creation of jobs, the investment in real and personal property, the social and cultural benefit that the Exempt Business provides to Puerto Rico and the geographic area where the Exempt Business will be conducted.
(e) In the event that the sum of the assessment percentages set forth in paragraph (c) of this Article results in more than 100 percent, the total Tax Credit to be granted shall be the maximum allowed in the applicable Chapter of Subtitle C of the Code and Section 2012.02 of the Code.

(f) Examples of evaluation scenarios:

1) Example 1. - ROI of 0% to 50% and Investment or eligible expenses of $1,000,000

<table>
<thead>
<tr>
<th>ROI = 0% - 50%</th>
<th>Permits</th>
<th>Funding Availability</th>
<th>Products manufactured in Puerto Rico</th>
<th>Export</th>
<th>Total %</th>
</tr>
</thead>
<tbody>
<tr>
<td>1) X</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>75%</td>
</tr>
<tr>
<td>2) X</td>
<td>X</td>
<td></td>
<td></td>
<td></td>
<td>77.5%</td>
</tr>
<tr>
<td>3) X</td>
<td>X</td>
<td>X</td>
<td></td>
<td></td>
<td>80%</td>
</tr>
<tr>
<td>4) X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>82.5%</td>
</tr>
<tr>
<td>5) X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>85%</td>
</tr>
</tbody>
</table>

(A) For purposes of illustration, the evaluation percentages are computed assuming that one or more of the criteria set forth in paragraphs (2) through (5) of section (c) of this Article are met. The evaluation percentage of the criteria in paragraphs (2) through (5) of paragraph (c) of this Article is 2.50% each, so any combination of these will have the same result.

(B) As an example, if under the facts of this example none of the criteria in paragraphs (2) through (5) of paragraph (c) of this Article are met, 75 percent of the maximum allowable Tax Credit would be granted.

For purposes of illustrating the computation, it is assumed that the applicable provision of the Code allows for a Tax Credit of up to 40% of the total investment or eligible expenses. In this case, if the CPA certifies the total of $1,000,000 of investment or eligible expenses, $400,000 would be the maximum possible Tax Credit, however, the application would receive an approval of $300,000 ($400,000 * 75%). If the Exempt Business meets two of the criteria in paragraphs (2) through (5) of section (c) of this Article, it would be granted 80% of the Tax Credit for a total of $320,000 ($400,000 * 80%).

(2) Example 2. - The possible scenarios under paragraph (1) above are assumed, but with a ROI calculation in the range of 51% to 99%.
In this case, if the Exempt Business meets three of the criteria in paragraphs (2) through (5) of paragraph (c) of this Article, it would be granted 97.5% of the maximum allowed in the applicable Code Section and the application would receive an approval of $390,000 ($400,000 * 97.50%).

Example 3. - The possible scenarios under paragraph (1) above are assumed, but with a ROI calculation in the range of 100% or more.

(A) In this case you would be granted the maximum allowed and the application would receive a $400,000 approval ($400,000 * 100%).

In the case of Tax Credits granted under Section 3010.01 of the Code, only the result of the computation of the ROI shall be taken into consideration for the determination of the granting of the Tax Credit, which shall be equal to thirty percent (30%) or forty percent (40%) of the Eligible Tourism Investment, as applicable. For these purposes, the Tax Credit will be granted when the result of the computation is equal to or greater than zero percent (0%). The DDEC Secretary is authorized to grant the Tax Credit in cases where the computation of the ROI results in less than zero percent, pursuant to paragraph (d) of this Article.

**Article 3000.02(b)-2. - Sale and Transfer of Tax Credits.**

(a) Within twenty (20) calendar days from the date of the assignment, sale or transfer, the Exempt Business that has assigned, sold or transferred all or part of its Tax Credit, as well as the acquirer of the same, shall notify the transfer by filing with the Secretary of the Treasury a jointly signed affidavit and shall send a copy of the same to the DDEC Secretary through the Portal. The affidavit shall contain the following information:

1. Name, address and employer or social security account number of the Exempt Business to which the Tax Credit was granted and the business that assigns, sells or transfers the Tax Credit;
2. Name, address and employer or social security account number of the transferee or acquirer;

<table>
<thead>
<tr>
<th>ROI = 51% - 99%</th>
<th>Permits</th>
<th>Funding Availability</th>
<th>Products manufactured in Puerto Rico</th>
<th>Export</th>
<th>Total %</th>
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<tbody>
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<td>1)</td>
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ROI = 51% - 99% of Total %
(3) Total amount of credit granted to the Exempt Business;
(4) Amount of the Tax Credit used by the Exempt Business and the balance of the Tax Credit available at the date of the assignment, sale or transfer of the credit;
(5) Amount of Tax Credit sold, assigned or transferred;
(6) Date of the assignment, sale or transfer of the Tax Credit;
(7) Taxable Year in which the Exempt Business was entitled to use the transferred Tax Credit and Taxable Year in which the purchaser or assignee of such credit may use the credit; and
(8) When applicable, the consideration given in exchange for the Tax Credit.

(b) A copy of the previous notification to the Department of the Treasury, with evidence of its filing, shall be included with the income tax forms for the Exempt Business for the year in which the assignment, sale or transfer of the Tax Credit is made and by the assignee or acquirer in each year in which it uses all or part of the acquired Tax Credit.

(c) The validity of the Tax Credit will not be affected if it is transferred to a third party in good faith, in exchange for adequate consideration and in accordance with the fair market value of the credit. Provided that in these cases the only party responsible for the reimbursement of the Tax Credit is the Exempt Business.

**Article 3000.02(c)-1. - Additional Rules and Limitations.**

(a) The purchaser or assignee of the Tax Credit shall be subject to the same limitations applicable to the Exempt Business with respect to its use. Among these, the purchaser or assignee of the Tax Credit may use the credit only in the Tax Year beginning within or after the year in which the Exempt Business was entitled to use the transferred Tax Credit, or any subsequent year thereof; provided that the credit was acquired or received prior to the date of filing of the income tax return for the Tax Year for which it is intended to be used, including any extension granted by the Secretary of the Treasury.

(b) The Exempt Business may use the services of a dealer broker to transfer, sell or otherwise assign to another person the Tax Credit granted. Such dealer broker may act as an intermediary in the sale of the Tax Credit or may purchase the same for resale. In the event that the dealer broker acquires the Contributive Credit for resale, such acquisition shall not be considered an assignment or transfer of the Contributive Credit, and when the dealer broker resells such credit, the transfer shall be considered as made directly by the Exempt Business to the buyer or assignee. For purposes of this Article, the term "securities broker" means any person who has a license from the Office of the Commissioner of Financial Institutions to operate as such at the time of the transfer, provided that such broker is acting in the ordinary course of business as an intermediary or as an acquirer of the Tax Credit for resale and not for its own use.
CHAPTER 1. - VISITOR ECONOMY TAX CREDITS

Article 3010.01(b)-1. - Tax Credit in a Separate Transaction.

(a) **Individuality of the Tax Credit.** - When the Exempt Business that has a Tax Credit makes an Eligible Tourist Investment that generates another Tax Credit, the second Tax Credit generated may be used along with the first, but both Tax Credits will retain their individuality for purposes of determining the maximum amount that may be used in a Tax Year under the provisions of paragraph (b) of Section 3010.01 of the Code.

(b) **Example.** - The provisions of this Article are illustrated by the following examples, providing that, for purposes of the examples herein, compliance with the provisions of the ROI is assumed pursuant to paragraph (a) of Section 1000.03 of the Code, and Article 3000.01(b)(5)-1 of these Regulations.

(1) Investor "A" makes an Eligible Tourism Investment in Tax Year 2020 which generates a Tax Credit amounting to $50,000 ("cc-1"). “A” receives its first paying guest during 2021. During the Taxable Years 2021 through 2023, “A” uses the carryforward provided in Section 3000.02(a)(4) of the Code and does not use cc-1. During Tax Year 2024, “A” makes another Eligible Tourist Investment which generates a $20,000 ("cc-2") Tax Credit. “A” obtained the necessary financing for the total construction of the Tourism Project in which “A” made the second Eligible Tourism Investment and the corresponding notices were issued during the same Tax Year 2024. Assuming that “A” elects to take the 30% Tax Credit provided for in Section 3010.01(a)(1) of the Code, the maximum Tax Credit that “A” will have available for use in any Tax Year beginning in 2024 will be $52,000 ($50,000 of cc-1, and $2,000 of cc-2).

Article 3010.01(b)-2. - Total Cost of the Tourism Project for the Tax Credit.

(a) **General rule.** - In order to benefit from the Tax Credit provided for in Section 3010.01 of the Code, any Exempt Business that has a Decree under Chapter 5 of Subtitle B of the Code, or Prior Incentive Laws, shall submit to the DDEC Secretary an application for certification of the Total Cost of the Tourism Project.

(b) **Certification.** - The request for certification must be made through the presentation of a Report of Previously Agreed Procedures or "AUP", to be prepared by a Certified Public Accountant licensed to practice in Puerto Rico, which will be carried out as indicated in paragraph (d) of this Article. Once the certification is issued, the Decree under review must comply with all the provisions of the Code and these Regulations.
in order to continue benefiting from the Tax Credit. The DDEC Secretary shall certify the amount of the Total Cost of the Tourism Project.

(c) **Date of application for certification.** - The Exempt Business may apply for certification when it becomes entitled to use the Tax Credit pursuant to Section 3010.01 of the Code.

(d) **AUP requirements.** - To prepare the "AUP", the following procedures must be carried out:

1. Verify the costs considered by the Exempt Business as eligible to be included in the Total Cost of the Tourism Project, to determine that the cost:
   
   A. It has been duly invoiced to the Exempt Business;
   
   B. It has subsequently been paid for by the Exempt Business;
   
   C. It is related to materials, supplies or services that have been certified as received by the Tourism Project Developer;
   
   D. It is a direct cost of the Tourism Project as certified by the Developer or manager of the Tourism Project;
   
   E. It is a cost described under the definition of Total Cost of the Tourism Project, pursuant to Code Section 1020.05(a)(8) and Article 1020.05(a)(8)-1 of these Regulations; and
   
   F. Represents a cost incurred after the Meeting to present the proposed Tourism Project ("Pre-Application Conference"), and prior to the date of commencement of the Tourism Activity, or in the case of interest and finance charges, payroll expenses, marketing expenses and costs related to the acquisition of furniture, equipment or materials for the operation, within twelve (12) months from the date of commencement of operations for an Exempt Business whose Tourism Activity does not consist of a Vacation Club ("Time Share"), or the expenses and disbursements of promotion, marketing and sale paid to Domestic Persons related solely to the sale, promotion and marketing of a Vacation Club ("Time Share") located in Puerto Rico within the first sixty (60) months after the opening of all the facilities of the Exempt Business.

2. Except in the cases of a Substantial Renewal or Expansion, as defined in this term in Section 1020.05(a)(14)-1 of these Regulations, for each expense representing the acquisition of real or personal property from another Tourism Project, verify that the Promoter has obtained a sworn statement from the seller or an authorized official of the seller certifying that the acquired property has not been used in a Tourism Activity during the thirty-six (36) month period prior to the acquisition by the Exempt Business.
For expenses that combine eligible and ineligible costs, verify the allocation formula used to ensure that it appropriately reflects the portion of the expense related to the Tourism Project.

Prepare an annex detailing the expenses to be included as a Total Cost of the Tourism Project, which should be included:

(A) The name of the supplier;
(B) The date of the invoice;
(C) The number of the invoice;
(D) The date of payment;
(E) The check number; and
(F) A brief description of the cost included.

In addition, for each cost included in the annex, reference should be provided to the Code Section or these Regulations under which it was determined that the cost should be included in the Total Cost of the Tourism Project.

Verify that any disbursement for repairs and construction resulting from damage caused by a natural event is excluded from the Total Cost of the Tourism Project if it was paid for with funds from an insurance policy.

Verify that the interests included in the annex of the Total Cost of the Tourism Project can be validated with the corresponding loan agreement, have been correctly computed and the corresponding cash payments have been made.

Reviewing payroll reports to ensure that only the salaries of employees directly involved with the Tourism Project are included in the Total Cost of the Tourism Project, and that all cost estimates related to time spent by the Developer or any Investor in the Exempt Business are excluded from the eligible costs.

(e) **Authorized sampling method.** - Due to the length of time incurred, and the economic impact of evaluating each item considered for the Total Cost of the Tourism Project, and the Eligible Tourism Investment, the DDEC Secretary may authorize the Authorized Public Accountant to use one of the sampling methods listed below.

1. **Sampling,** whether statistical or non-statistical, is the process by which the CPA selects a group of items from a larger group of items in the investment claimed to be eligible and evaluates them for eligibility under the Code and these Regulations.

2. The DDEC Secretary will use the results of the sampling that are certified by the Certified Public Accountant to infer the characteristics of the entire population of items to determine the amount to be granted as a Tax Credit.

(f) **Statistical sampling.** - It is based on the laws of probability, allowing the CPA to have control of the risk by being guided by sample results to calculate the sampling risk.
The maximum tolerable amount of risk will be ten percent (10%), so the level of certainty should be at least ninety percent (90%). The recommended approach to statistical sampling will be sampling with classical variables and probability-proportional-to-size (PPS) sampling. Classical variables techniques will use a normal distribution to evaluate the outcome samples. The PPS approach will use attribute sampling theories. Both approaches will provide sufficient evidence to meet the objectives of the CPA.

(g) **Non-statistical sampling.** - Approximates the risk of sampling using professional judgment rather than statistical techniques. If this method is used, the tolerable error should be no more than five percent (5%) of the Total Cost of the Tourism Project.

(h) Sampling methods should be selected so that the result is expected to be representative of the population. In addition, errors found in sampling should be used to calculate the amount of error in the population. However, non-statistical sampling does not provide ways to determine risk, so the CPA may take larger samples than necessary. To carry out non-statistical sampling, the CPA should consider the effects of several factors in determining sample size, including, but not limited to: inherent and control risk, tolerable error, estimated size and frequency of errors, and estimated population variance.

**Section 3010.01(c)-1. - Availability of Tax Credit.**

(a) **General rule.** - All Eligible Tourism Investments made within the Taxable Year shall qualify for the Tax Credit provided in paragraph (a) of Section 3010.01 of the Code.

(b) **Requirement.** - To use the Tax Credit, it will be necessary to:

1. The transaction by which the Exempt Business arranged the necessary financing to carry out the Tourism Project has been completed by obtaining full financing, capital contribution and a legally enforceable commitment to make a capital contribution that has the approval of the DDEC Secretary and the Secretary of Finance, if the capital contribution is to be made after the closing date;

2. In the event that the DDEC Secretary or the Secretary of the Treasury determines that it is necessary, a bond, letter of contribution credit, or any other guarantee acceptable to the DDEC Secretary and the Secretary of the Treasury is available for the amount of the capital contribution to be made after the closing date;

3. The provisions of the Code and these Regulations have been complied with; and
(4) Except in situations where the DDEC Secretary determines that the best interests of Puerto Rico require otherwise, the Eligible Tourism Investment was made after the date of approval of the Code.

(c) The determination of the availability of the Tax Credit for a Tourism Project shall be made based on the provisions of paragraph (a) of Section 3010.01 of the Code.

Article 3010.01(c)-2. - Entitlement to Contributory Credits.

(a) **Condo Hotel.** - In the event that the Promoter reserves the Tax Credit for the purchaser, pursuant to Section 3000.02(a)(3) of the Code, only the first purchaser in the first sale of the Unit shall be entitled to use the Tax Credit. The right of the acquirer of the Unit to use the Tax Credit shall arise upon receipt of its Decree from the DDEC Secretary, after compliance with the requirements set forth in Article 2053.01 of the Code. However, the right shall be retroactive to the date of filing of the application for the Decree. The purchaser of the Unit must accompany a copy of its Decree with the income tax form for each Tax Year in which it is interested in using the Tax Credit arising from the purchase of the Unit at the Condo Hotel. The provisions of this section (a) shall in no way affect the right of the owner of the Unit of the Condo Hotel to assign, sell or in any way transfer its Tax Credit.

(b) **Vacation Club ("Time Share").** - The right to the Tax Credit shall belong to the Developer or operator of the Tourism Project and not to the Person who contributes cash in exchange for the right to use a Unit for a limited period of time each year.

Article 3010.01(d)-1. - Base Adjustment and Tax Credit Recovery.

(a) **General rule.** - The asset base comprising any Eligible Tourist Investment will be reduced by the amount claimed for the Tax Credit, but may never be reduced to less than zero.

(b) **Annual report.** - The Exempt Business must submit an annual report to the DDEC Secretary in which the total Eligible Tourism Investment in the Tourism Project made as of the date of the annual report is detailed.

(c) **Certification.** - Any Exempt Business claiming a Tax Credit under the provisions of Section 3010.01 of the Code, shall apply for a certificate of credit issued annually by the DDEC which shall certify the Eligible Tourism Investment.

Article 3010.01(d)-2. - Annual Report.

(a) **Settling.** - The total breakdown of the Eligible Tourism Investment in the Tourism Project made shall be reported along with the compliance report required by Section 6020.10, which shall be filed electronically with the Incentive Bureau through the Portal to be created pursuant to Section 6011.03 of the Code.
(b) **Content.** - The report must break down the total of the Eligible Tourism Investment in the Tourism Project made at the date of filing the report, and contain the following information:

1. Name and address of the Exempt Business;
2. Name and address of the Tourism Project Developer;
3. Employer Identification Number of the Exempt Business;
4. A list of the expenses incurred in the development of the Tourism Project, accompanied by the necessary evidence to certify them, as it would be, for example:
   - Partial certifications by civil engineers that the Tourism Project is in progress;
   - Signed construction contracts;
   - Change orders;
   - Cost estimates from suppliers; or
   - Any other evidence that the DDEC Secretary determines is necessary to certify the expenses incurred.

(c) **Final cost.** - Once the DDEC Secretary is satisfied with the certainty of the representations that the Total Cost of the Tourism Project differs from the figures included in the original Decree, the DDEC Secretary will proceed to amend the Decree to reflect the true Total Cost of the Tourism Project. The Total Cost of the Tourism Project included in the original Decree shall remain in effect until the DDEC Secretary amends the Decree according to the documentation submitted. The DDEC Secretary shall redetermine the Tax Credit available for the Tourism Project and shall notify the Exempt Business. The DDEC Secretary shall notify the Secretary of the Treasury of any excess of the Tax Credit used.

(d) **Tax Credit computed by the Exempt Business greater than that computed by the DDEC.** - When the Tax Credit computed by the Exempt Business is greater than the Tax Credit computed by the DDEC's Secretary, the Exempt Business shall compute the portion of the excess Tax Credit used that it must assume as tax debt. The Exempt Business shall notify, by certified mail with acknowledgement of receipt, the DDEC Secretary and the Secretary of the Treasury, through the Portal established for this purpose by the Incentive Office pursuant to Section 6011.03 of the Code. The excess of the Tax Credit used shall be owed as a contribution over income by the Exempt Business, if it was entitled to, and used any portion of the Tax Credit, to be paid in two (2) installments, the first to the Tax Year following the date it becomes aware of the excess in the Tax Credit, and the second installment to the following year. The Exempt Business shall always be subject to the recovery of the Tax Credit described in this section, even if it assigns, sells or otherwise transfers the Tax Credit, either to its investor or to a third party.
(e) **Exceptions to the recovery of the Tax Credit.** - The provisions for the recovery of the Tax Credit described in this Article shall not apply:

1. To anyone who acquires Tax Credit directly from the Exempt Business or Developer;
2. To a broker-dealer or underwriter who, acting as such, acquires Contributive Credit at closing for the financing of a Tourism Project;
3. To anyone who acquires the Contribution Credit from a broker-dealer or underwriter who, as in paragraph (2) of this section (e), has previously acquired the Contribution Credit;

(f) **Tax credit computed by the Exempt Business less than that computed by the DDEC.** - When the Tax Credit computed by the Exempt Business is less than the Tax Credit computed by the DDEC Secretary, the Exempt Business shall compute the portion of the excess Tax Credit that has not been distributed. The undistributed Tax Credit shall be distributed in the same proportion as the required notice. If making the distribution in accordance with the above notice results in the portion of the Tax Credit that cannot be used because the maximum Tax Credit that can be used has been reached, the Exempt Business shall notify the DDEC Secretary of a new distribution.

**Article 3010.01(f)-1. - Assignment of Tax Credit.**

(a) **General rule.** - The Tax Credit may be assigned, sold, or otherwise transferred only by an Investor in the Exempt Business, except when pledged to the Government Development Bank, any other agency of the Government of Puerto Rico, or any other Lender, for purposes of financing the eligible cost of the Tourism Project, the creditor of the pledge may sell, assign, or otherwise transfer the Tax Credit acquired by

1. The assignment of the Tax Credit by the Exempt Business as a source of repayment of the financing; or
2. The execution of the pledge to a third party, if the pledge is executed.

(b) **Base setting.** - The amount of the assigned Tax Credit will reduce the adjusted base of the Eligible Tourism Investment by an amount equal to the assigned Tax Credit.

(c) **Tax-exempt amount.** - Property or money received in exchange for the assigned Tax Credit will be exempt from taxation up to an amount equal to the amount of the assigned Tax Credit. The amount paid for a Tax Credit may not be used as a deduction, nor capitalized or otherwise considered an expense under the Internal Revenue Code. Also, when the amount paid for the Tax Credit by the assignee is less than the amount of the Tax Credit, the difference shall not be considered as gross income for the assignee, nor loss for the assignor of the Tax Credit.

(d) **Notification.** - The assignor and the assignee of a Tax Credit shall notify the DDEC Secretary and the Secretary of the Treasury of the assignment by means of an affidavit which, for such purposes, shall include
(1) The name, address and social security number or employer identification number, as the case may be, of the transferor;

(2) The name, address and social security number or employer identification number, as the case may be, of the transferee;

(3) The total amount of Tax Credit approved by the DDEC Secretary;

(4) The total amount of the Assignor's Tax Credit;

(5) The amount of Tax Credit used by the assignor;

(6) The amount of tax credit assigned;

(7) The date of the assignment and the Tax Year in which the assigned Tax Credit may be used; and

(8) The consideration given in exchange for the Tax Credit.

The notification shall be included with the income tax form of the assignor and assignee for the Assignment Tax Year.

**Article 3010.01(f)-2. - Assignment of Tax Credit through a Broker-Dealer.**

(a) The Person acting as broker-dealer in the assignment, sale or transfer of the Contributive Credit may appear in representation of the assignee upon the granting of the affidavit required by paragraph (d) of Article 3010.01(f)-1 of these Regulations, if the assignee so wishes.

(b) In the event that a broker-dealer appears on behalf of the assignee at the granting of the affidavit, it shall provide the assignee with a copy of the affidavit within ten (10) days, or the period previously agreed upon between an assignee and a broker-dealer, if less than ten (10) days.

(1) An assignee shall include a copy of the affidavit signed by a broker-dealer with the income tax return for the Tax Year of the transfer, when it was signed by the assignee together with a copy of the written approval of the Tourism Office so that at the time of acquiring the Tax Credit the broker-dealer was authorized to act as such.

(c) In the event that a broker-trader appears on behalf of an assignee at the issuance of the affidavit, he shall be jointly liable with the assignee for the forgery of or any fraud in the affidavit. The assignee may object to the filing of the affidavit when it has been signed by a broker-dealer duly authorized to do so, alleging fraud or forgery only before filing his or her income tax return for the Tax Year of the assignment, sale or transfer of the Tax Credit.

(1) When the assignee objects to the granting of the affidavit signed on his or her behalf by the Broker-Dealer, the assignee shall have to grant a new affidavit with the transferor of the Tax Credit, which shall be filed with his or her income tax return before the assignee may claim the Tax Credit.
Article 3010.01(f)-3. - Assignment of Tax Credit through an Underwriter.

(a) The Subscriber who acting as such acquires by assignment, purchase or transfer any Contributive Credit, shall be considered as assignee for purposes of the Code and these Regulations.

Article 3010.01(f)-4. - Assignment of Tax Credit by the Government of Puerto Rico.

(a) General rule. - When the assignor of the Tax Credit is the Government of Puerto Rico through any of its agencies, instrumentalities or public corporations, the express approval for the assignment of the Tax Credit by the DDEC Secretary, the Secretary of the Treasury and the Executive Director of the Financial Advisory Authority and Tax Agency ("AAFAF") shall be required prior to compliance with the provisions of the Code and these Regulations.

CHAPTER 2. - MANUFACTURING TAX CREDITS

Article 3020.01(a)-1. - Tax Credits for Purchases of Manufactured Products in Puerto Rico

(a) If an Exempt Business that has a Decree granted under Chapter 6 of Subtitle B of the Code or Prior Incentive Laws, purchases Products manufactured in Puerto Rico, including components and accessories, or purchases or uses products transformed into articles of commerce made from recycled materials or with raw material from recycled materials or collected or reconditioned by Exempt Businesses under paragraph (8) of section 2061(a).01 of the Code or analogous provisions under previous Incentive Laws, shall be entitled to a Tax Credit up to a maximum of twenty-five percent (25%) of the purchases of such products made during the taxable year. It is understood that the terms "enterprises", "businesses" and "entities" are used interchangeably and shall have the same meaning for purposes of this Article.

(1) This credit will be granted only for purchases of products that have been manufactured by companies not related to such Exempt Business. For purposes of this Article, an "unrelated business" shall be one which at the time of purchase of the Manufactured Product the Exempt Business does not own fifty percent (50%) or more of the value of its shares or interests. For purposes of determining whether the Exempt Business owns fifty percent (50%) or more of the shares or interests of an enterprise, the principles on ownership of shares set forth in Section 1092.01(a)(3) of the Puerto Rico Internal Revenue Code shall be used. For purposes of determining the relationship of the...
entities, the rules established in Section 1010.05 of the Puerto Rico Internal Revenue Code shall be used.

(2) In the case of an Exempt Business whose Decree has been granted under the Prior Incentive Laws, the credit provided in this Article will not be available in case the Exempt Business claims any special deduction or credit of analogous nature under such Prior Incentive Law for such taxable year in relation to the purchase of Manufactured Products in Puerto Rico.

(3) An Exempt Business whose Decree has been issued under the Prior Incentive Laws may claim the credits to which it is entitled under such Prior Incentive Laws in lieu of the credit provided for in this Article so long as such credits continue to be available under such Prior Incentive Laws.

(b) In the case of a Business Exempt under the Code that operates from the islands municipality of Vieques or Culebra, but only during the period that it operates from the islands municipality of Vieques or Culebra, pursuant to Section 2013.03 of the Code or in the case of a New SME, pursuant to Section 2012.02, it may apply to the DDEC for a Tax Credit of up to thirty percent (30%) of the purchases of Manufactured Products in Puerto Rico, subject to the provisions of Sections 3000.01 and 3000.02 of the Code.

(c) Accredited Certificate. - Any Exempt Business interested in claiming a Tax Credit under the provisions of this Article shall apply for a certificate of credit issued annually by the DDEC, which shall certify the purchases eligible for the granting of the Tax Credit. In the case of an Exempt Business that has a Decree under Chapter 6 of Subtitle B of the Code that also has one or more taxable operations, the purchases of Manufactured Products in Puerto Rico, including components and accessories that will be taken into account for this credit will be only those directly or indirectly related (including purchases for the administrative phase of the exempt business) to the operations covered under the Exempt Business Decree. For purposes of this credit the term "purchase" refers to the acquisition of the Manufactured Product in a transaction in which the acquirer's basis in the property is not determined by reference to the basis of such property in the hands of the assignee.

(d) Use of Credit. - No amount greater than that granted through the process established in Section 3000.01 of the Code may be claimed as a credit. This credit shall not generate a refund or overpayment of contributions.

(e) Assignment of Credit. - The credit established in this Article shall be non-transferable, except in the case of an exempt reorganization. For purposes of this Article, an "exempt reorganization" means a transaction that qualifies for the non-recognition of gain or loss under Sections 1034.04(b)(3), 1034.04(b)(4), 1034.04(b)(5), 1034.04(b)(6), 1034.04(b)(8) and 1034.04(g) of the Puerto Rico Internal Revenue Code.

(f) Credit Dragging. - The amount of the credit not used by the Exempt Business in a tax year may be carried forward to subsequent tax years until it is fully utilized. To obtain the benefit of the credit carry forward, the Exempt Business will submit together with the
income tax return an attachment that reflects the detail of the composition of such carry forward.

(g) **Use in Common with Taxable Activities.** - In the event that the Products manufactured in Puerto Rico are used in both the exempt and taxable operations, and to the extent that the Exempt Business cannot specifically identify its purchases from the Exempt Business, the Exempt Business will make an apportionment of the cost of the Products manufactured in Puerto Rico for purposes of determining the credit provided for in this Article. The Exempt Business will make the apportionment according to the proportion of sales of the Exempt Business and the total sales of the entity.

(1) The provisions of this paragraph are illustrated by the following example, providing that, for purposes of the example herein, compliance with the provisions of the ROI is assumed pursuant to paragraph (a) of Section 1000.03 of the Code, and Article 1000.03(a)-XX of these Rules.

(A) **Example 1.** - The “P” Corporation has an Executive Decree under Chapter 6 of Subtitle B of the Code effective July 1, 2020. In addition to the operation covered under the Decree, “P” also has an operation not covered under Chapter 6 of Subtitle B of the Code. In September 2020, “P” acquired Products Manufactured in Puerto Rico to be used in its exempt manufacturing process for an amount of $3,200,000. It also purchased $250,000 in products manufactured in the Island for its non-sheltered operation under Chapter 6 of Subtitle B of the Code. “P” requests a certificate of credit from the DDEC to certify the purchases eligible for the credit. The DDEC grants the certificate to “P” for his entire purchase, $3,200,000.

The credit for the purchase of Manufactured Products in Puerto Rico that “P” may claim for tax year 2020 shall be subject to the limitation of twenty-five (25%) of the purchases of Manufactured Products in Puerto Rico ($3,200,000 x 25% = $800,000) and to the provisions of the incentive contract granted in accordance with the process established in Section 3000.01 of the Code.

The balance of the unclaimed credit may be claimed in subsequent years until it is exhausted. “P” may not claim credit for the purchase of $250,000 in Products Manufactured in Puerto Rico for its operation not covered under Chapter 6 of Subtitle B of the Code.
CHAPTER 3. - RESEARCH AND DEVELOPMENT TAX CREDITS

Article 3030.01(a)-1. - Eligibility of Activities Related to a Research and Development Project.

(a) Eligible Activities of a Research and Development Project. - Only the following activities of an R&D project will be considered Eligible Activities:

1. Experimental Activities. - Experimental Activities eligible for credit under Code section 3030.01 on an R&D project shall be exclusively the following:

   A. Prototype design or Experimental Manufacturing activities or any eligible activity of an Exempt Business under the Code that contributes totally and directly to achieving Scientific or Technological Advancement, creating or improving Products or creating new Processes;

   B. Test activities of a Prototype developed through a R&D activity to determine if its design is appropriate before its launch or use in commercial scale;

   C. Development of new Processes to establish the ability to perform an eligible activity of an Exempt Business under the Code;

   D. Activities of the Development Life Cycle of a new "Software" until the launch stage is completed.

2. Incidental Activities. - Incidental Activities for an R&D project shall be eligible for credit under Code Section 3030.01, provided that the requirement that eighty percent (80%) of the Experimental Activities of the R&D project be conducted in Puerto Rico is met and subject to the limitation provided in Section 1020.01(a)(34)(ii)-1, (c)(2).

3. The DDEC Secretary may establish other activities considered as Eligible Activities for purposes of this article.

(b) Ineligible Activities. - The following activities, among others, will not be considered Eligible Activities for credit:

1. Quality control management or inspection of a manufactured product or process

2. Activities to adapt a Product, Process or Service to the particular needs of a client;

3. Research and development activities aimed at creating or improving a Product, Process or Service for a single customer rather than a market;

4. Research and development activities as a service to a third party due to the absence of the financial risk of such activities;
Market testing and marketing efforts;

Tasks of adaptation to standards, routine testing and analysis of materials, components, products or processes where the main objective is to perform analysis and develop standards;

Activities that address Scientific or Technological Uncertainties that can be easily resolved by a competent professional working in the field in question;

Research funded by a grant, agreement or otherwise by another person or government entity in Puerto Rico, including municipalities, alliances between municipalities, alliances between the private sector and academia and/or non-profit entities;

Improvements, optimizations and adjustments ("fine tuning") that do not affect the underlying Science or Technology;

The compilation of information or other content, by itself, is not Research and Development;

The operation of Pilot Plants, machinery and equipment, after the Scientific or Technological Uncertainty associated with the expected advance in Science or Technology has been resolved;

Design activities that do not directly contribute to the resolution of scientific or technological uncertainties;

Activities to improve the cosmetic appearance of a product;

Regulatory activities that do not generate new knowledge aimed at developing Products or Processes;

The maintenance phase in the Software Development Life Cycle.

For purposes of the Tax Credit provided for in Section 3030.01 of the Code, any Exempt Business that is engaged in contract R&D activities for the benefit of a third party, regardless of whether that third party is an Affiliated Entity or not, is excluded. That is, if the Exempt Business engages in R&D activities for "contract research" it is disqualified for purposes of the Credit provided in Section 3030.01 of the Code.

The provisions of this article are illustrated by the following examples.

Example 1. - Corporation “E” has a Decree under the Code and is engaged in the business of manufacturing and selling drugs. “E” is conducting a series of experiments and clinical trials in Puerto Rico to develop cholesterol-lowering drugs. This activity is considered a research and development activity under the provisions of this article.

Example 2. - Corporation “A” has a Decree under the Code and is engaged in the development of licensed or patented programs or applications, an activity that qualifies as research and development. “A” has a program for calculating the employer's withheld contribution which it produces on a
commercial scale. During the year, “A” incurred a series of expenses to update the program to the new income withholding rates issued by the Department of Finance and other expenses to adapt the program to a client's operations. The activity of updating and adapting the program will not constitute a research and development activity under the provisions of this article.

(3) Example 3. - Corporation "R" has a Decree under the Code and is engaged in the provision of banking services to European clients. During the year, R incurred a series of expenses to develop programs to reduce the volatility of its investment portfolio. The costs of the development activity of such programs will not constitute research and development expenses under the provisions of this article, since the programs are for the internal use of the corporation.

(4) Example 4. - The “S” Corporation has a Decree under the Code and is engaged in the manufacture of chemicals. “S” Corporation conducted studies and acquired machinery to improve the quality control of certain products that it currently manufactures on a commercial scale. Such activity does not constitute a research and development activity under the provisions of this article.

(5) Example 5. - Corporation “M” has a Decree under the Code and is engaged in the manufacture of beauty and skin care products. “M” developed a new product through its research and development division and carries out a market study to outline the launch strategy of the new product. Market research is not a research and development activity under the provisions of this article, but product development is.

(6) Example 6. - Corporation “O” has a Decree under the Code and is engaged in the manufacture of motor vehicle tires. “O” is carrying out experimental activities for the purpose of improving the grip of tires on wet surfaces. This activity is considered a research and development activity under the provisions of this article.

(7) Example 7. - Corporation “P” has a Decree under the Code and is dedicated to the manufacture of electronic products and performs research or experimental processes to improve their design, efficiency, performance or functionality. As a result of these activities, it develops and launches new products or existing products with different specifications. This activity is considered a research and development activity under the provisions of this article.

(8) Example 8. - Corporation “X” has a Decree under the Code and is engaged in the assembly and sale of equipment to generate energy from renewable
sources. “X” is engaged in activities to develop equipment to capture, process and transmit such energy sources in more efficient or reliable ways. This activity is considered a research and development activity under the provisions of this article.

(9) **Example 9.** - The “Y” Corporation has a Decree under the Code and is engaged in providing research and development export services under Chapter 3 of Subtitle B of the Code. This activity is considered a research and development activity under the provisions of this article, provided that the research and development activity meets the definition of Eligible Activities of a Research and Development Project in paragraph (a) of this article.

(10) **Example 10.** - Corporation “Z” has a Decree under the Code and is engaged in providing export services on the cybernetic network as part of a blockchain under Chapter 3 of Subtitle B of the Code where it uses research and development activities to develop innovative technology. These activities are considered research and development activities under the provisions of this article, provided that the research and development activity meets the definition of Eligible Activities of a Research and Development Project mentioned in paragraph (a) of this article.

**Article 3030.01(a)-2. - Provisions Relating to the Granting, Operation and Utilization of Credit**

(a) **Credit Concession.** - After the approval of the Code, any Exempt Business that has a Decree granted under the Code and a Certificate of Credit issued by the DDEC Secretary under section (a) of Article 6030.01(a)(3)-1 may claim in its income tax return for the year of the investment, a credit for investment of up to fifty percent (50%) of the Special Eligible Investment made in Puerto Rico by such Exempt Business or any "affiliated entity" thereof. The credit granted to an Exempt Business under the Code is subject to the rules and limitations set forth in Sections 3000.01 and 3000.02 of the Code. For purposes of this article, an "affiliated entity" means any Entity that is directly or indirectly controlled by the Exempt Business by 50 percent (50%) or more of the total value of its shares or interests; that directly or indirectly owns 50 percent (50%) or more of the total value of the shares or interests of an Exempt Business; or that is directly or indirectly controlled by a corporation or partnership in 50 percent (50%) or more of the total value of its shares or interests and, in turn, such corporation or partnership directly or indirectly owns 50 percent (50%) or more of the total value of the shares or interests of an Exempt Business.

(b) As part of the evaluation to determine the granting of the Special Eligible Investment credit in R&D activities, the DDEC Secretary will take into consideration the
information submitted by the Exempt Business on the plans aimed at having the result of the R&D activities implemented commercially in Puerto Rico.

(c) In the case of acquisition or construction of physical facilities to qualify for the credit, these must be used exclusively in an R&D Project for a minimum period of fifteen (15) years. In such case, the advance of the credit may be requested in the year in which the property is acquired or as the construction costs in process are capitalized, by means of an administrative determination request to the Secretary of the Treasury and by submitting a bond acceptable to the Secretary of the Treasury, which shall be in force for a period of fifteen (15) years and shall guarantee the recovery of the credit in the event that such property ceases to be used exclusively for the eligible R&D activities contained in the Certificate of Eligible R&D Activities issued by the Executive Director to the Exempt Business or its affiliate.

(d) The request for an administrative determination shall be filed with the Assistant Secretary of Internal Revenue of the Department of the Treasury, by mail or in person, and shall contain the following documents

1. An affidavit from the Exempt Business containing detailed information about the Exempt Business and a detail of the physical facilities to be acquired or constructed, the costs to be qualified as a Special Eligible Investment and a detail of all the activity to be performed on the property during the fifteen (15) years following the date of completion of the construction or improvement you wish to qualify for credit;

2. The Certificate of Credit issued by the DDEC Secretary establishing that the activity that the Exempt Business is interested in performing in the property constitutes an eligible for credit under this Chapter.

3. In the case of construction, when applying for the credit, as construction costs in progress are capitalized, evidence must be provided that the Exempt Business or its affiliate has the full approved financing to complete the construction of the property;

4. A notification from the Certified Public Accountant that you are interested in preparing a Pre-Agreed Procedures Report to certify the project costs and capitalizable expenditure per year. The appointment of the Certified Public Accountant will be subject to the approval of the Secretary of the Treasury;

5. Certified check or bank or U.S. Postal Service draft payable to the Secretary of the Treasury in the amount set forth in Act No. 15 of July 20, 1990 and Regulation No. 8693, known as the "Regulation to Impose Service Charges for Applications Submitted to the Department of Treasury" (Regulation 8693), as amended from time to time; and

6. Any other document or information that the Exempt Business deems convenient to submit or that the Secretary of the Treasury requires as
necessary to carry out a complete and thorough examination of the application.

(e) After the agreement of the Secretary of Finance to have the report prepared by the designated Certified Public Accountant, the Certified Public Accountant will prepare the report in accordance with the agreed procedures and provide the Secretary of Finance with the prepared report certifying the project costs and capitalizable expenditure per year. The Secretary of the Treasury reserves the right to determine, upon receipt, whether the previously agreed upon Audit Procedures Report is to his or her satisfaction. If not, the Exempt Business will be responsible for providing additional information as requested. No business relationship between the Authorized Public Accountant and the investor or the Exempt Business may exist, except for the execution of the audit and the Report of Previously Agreed Procedures. No Authorized Public Accountant that is the internal controller of the investor or the Exempt Business, or that keeps its books, may be the Authorized Public Accountant that certifies the costs of the project.

(f) If the Previously Agreed Procedures Report is to the satisfaction of the Secretary of the Treasury and the costs reported in it represent those capitalized by the Exempt Business, the Secretary of the Treasury will issue an administrative determination certifying whether or not the investment to be made is eligible for credit and, to the extent it is determined to be eligible, will require the Exempt Business to provide a bond or other form of security acceptable to the Secretary of the Treasury, annually, for the monetary value of the credit to be claimed corresponding to the physical facilities. The bond or guarantee must be submitted to the Tax Exempt Office of the Department of Treasury prior to the filing of the Exempt Business' return where the credit is claimed. It will guarantee the recovery of the credit if the construction is not completed, or if there is an overclaimed credit, so it must remain in effect for a period of fifteen (15) years from the completion of the construction or acquisition of the physical facilities.

(g) Upon completion of construction, the Exempt Business shall notify the Secretary of the Treasury in writing and include a copy of the property use permit issued by the appropriate government agency.

(h) **Self-determination of credit recovery when the acquired property is not used for research and development activities.** - If an Exempt Business under the Code claims or transfers a Special Eligible Investment credit on a Research and Development Project in connection with the acquisition or construction of physical facilities and does not use such property exclusively for the R&D activities contained in the R&D project's Certificate of CreditD project issued by the DDEC Secretary to the Exempt Business or its affiliate, for a period of fifteen (15) years from the date of its acquisition or the date of completion of construction, or the useful life of the property,
whichever is shorter, such Exempt Business shall notify the Department of Finance and determine the amount of credit to be recovered. Such amount shall be due as income taxes and shall be an amount equal to the credit for Special Eligible Investment in Research and Development claimed or transferred, multiplied by a fraction whose denominator shall be fifteen (15) or the useful life of the property, whichever is less and the numerator shall be the balance of the fifteen (15) year period required by this section or the useful life of the property, whichever is less. This notice shall be deemed given if the Exempt Business includes with its income tax return for the year in which it is determined that such investment was not used in a Research and Development activity or its use was discontinued within the above period, a payment equivalent to 50 percent (50%) of the amount of credit to be recovered. The remaining 50 percent (50%) of the credit recovery will be paid with the income tax return corresponding to the following year.

(1) The provisions of this Article are illustrated by the following examples, providing that, for purposes of the examples herein, compliance with the provisions of the ROI is assumed pursuant to paragraph (a) of Section 1000.03 of the Code, and Article 3000.01(b)(5)-1 of these Regulations.

(A) **Example 1.** - Corporation “A” is engaged in the manufacture of aluminum cans and has an exemption decree under the Code. “A” is conducting research and development with other materials as possible substitutes for aluminum. As part of these activities, “A” has incurred the following direct expenses: payroll, materials, rent and electricity of $80,000, $20,000, $10,000 and $5,000, respectively. “A” is entitled to a credit of up to $57,500, which may be claimed under Section 3030.01 of the Code.

(B) **Example 2.** - The same facts as in Example 1 are assumed and “A” furthermore attributes $38,000 of the total general and administrative expenses of the company not directly related to the research and development operation to that activity. “A” is not entitled to a credit since the amount of general and administrative expenses is not directly related to the research and development operation.

(C) **Example 3.** - The “W” Corporation is engaged in the manufacture of concrete products and has an Exemption Decree under the Code. “W” is conducting research and development to partially replace concrete with other materials. “W” has incurred the following direct expenses: payroll, materials, rent and electricity for $80,000, $20,000, $10,000 and $5,000, respectively. In addition, it acquired research and development equipment with a useful life of five (5) years at a cost of $500,000. The depreciation of the equipment acquired in the first year is
$35,000. “W” is entitled to a credit of up to fifty percent (50%) of the total capitalizable expenses ($500,000) and operating expenses ($115,000) incurred during the tax period. Depreciation expense is not creditable because the cost of the equipment is being included in the computation of the available credit. The amount of the credit will be up to $307,500, which may be claimed under the provisions of Section 3030.01 of the Code.

(D) Example 4. - Corporation “F” is engaged in the manufacture of drugs and has an exemption decree under the Code. “F” Corporation conducts ongoing research activities for the development of new drugs. “F” is constructing a new building where its research and development operations will be exclusively located at a cost of $2,000,000. The construction of this building will generate a capitalizable expense that qualifies for the credit provided for in this Chapter as construction costs in progress are capitalized and subject to the exempt business applying for and obtaining a pre-investment administrative determination from the Secretary certifying that the business is eligible for the credit and providing a bond or other form of security acceptable to the Secretary of the Treasury for the value of the credit to be claimed corresponding to such capitalizable construction costs.

(E) Example 5. - The “S” Corporation is engaged in the manufacture of drugs and has an exemption decree under the Code. “S” rents a building used exclusively for research and development operations. In the building is located a cafeteria that “S” operates for the exclusive use of the employees of the research and development operations and their guests. The operation of such cafeteria has incurred the following direct expenses: payroll, materials, rent and electricity for $20,000, $10,000, $5,000 and $3,000, respectively. In addition, it acquired equipment with a useful life of five (5) years at a cost of $50,000. The depreciation of the equipment acquired in the first year is $10,000. “S” is entitled to a credit of up to fifty percent (50%) of the total capitalizable expenses ($50,000) and operating expenses ($38,000) incurred during the tax period. Depreciation expense is not creditable because the cost of the equipment is being included in the computation of the available credit. The amount of the credit will be up to $44,000, which may be claimed under the provisions of Section 3030.01 of the Code.

(F) Example 6. - The “T” Corporation is engaged in providing export services on the cyber network as part of a blockchain and has an Exemption Decree under Chapter 3 of Subtitle B of the Code where it
uses research and development activities to develop innovative technology. “T” Corporation invested $50,000 in Testing a Prototype developed through an R&D activity to determine if its design is appropriate prior to its launch or use on a commercial scale. The amount of the credit will be up to $25,000, which may be claimed under the provisions of Code Section 3030.01.

(G) **Example 7.** - Corporation “A” is engaged in the manufacture of pharmaceutical products and has an Exemption Decree under the Code. “A” makes a Special Eligible Investment of $1,000,000 to acquire a building and $750,000 to conduct clinical trials and cover other direct operating expenses related to research and development activities. “A” elects the deduction granted by section 2062.06 of the Code with respect to the building. Based on the foregoing, only the $750,000 invested in clinical trials and direct operating expenses will qualify as a Special Eligible Investment for the credit under Code Section 3030.01(a).

(i) **Use of credit.** - The tax credit granted by Section 3030.01 of the Code may be claimed in two or more installments. Up to fifty percent (50%) of such credit may be claimed as follows:

(1) In the case of an Exempt Business under the Code, against 100% of the tax liability determined under Subtitle A of the Puerto Rico Internal Revenue Code for the tax year in which the Eligible Investment is made, including the alternative basic contribution applicable to individuals and the minimum alternative contribution applicable to corporations, as well as any income tax imposed by the Puerto Rico Internal Revenue Code with respect to the activities that gave rise to the tax credit, or any other income tax that is fixed by special law or any combination thereof. In addition, the tax credits may be used against the tax liability of any unmatured tax return, including under valid extensions, even if it is from one year prior to the granting of the tax credit. The balance of the credit may be used in subsequent years until it is exhausted. Paragraph (a) of this Article establishes the process to be followed for the granting of the tax credit.

(j) **Assignment of the credit for Special Eligible Investment.** –

(1) The Special Eligible Investment credit provided for in this Chapter may be assigned, sold or otherwise transferred by the Exempt Business to any other person, in whole or in part, and shall be governed by the provisions of paragraphs (a) and (c) of this article. For purposes of this paragraph, the receivable may be sold or assigned on only one occasion. Any transferee who is also an Exempt Business under the Code and who acquires credits may use them against the tax liability determined under
Subtitle A of the Puerto Rico Internal Revenue Code for the tax year in which the Eligible Investment is made, including the alternative basic contribution applicable to individuals and the minimum alternative contribution applicable to corporations, as well as any income tax imposed by the Puerto Rico Internal Revenue Code with respect to the activities that gave rise to the tax credit, or any other income tax set by special law or any combination thereof. In cases where the transferee is not an Exempt Business, it may use the credit against the income tax established in Subtitle A of the Puerto Rico Internal Revenue Code. No assignee may use the credit acquired to satisfy any obligation as withholding agent established by the Puerto Rico Internal Revenue Code.

(2) Money or property value received in exchange for the investment credit will be exempt from taxation under Subtitle A of the Puerto Rico Internal Revenue Code and under the "Municipal Patents Law", or analogous or successor law, up to an amount equal to the amount of the investment credit assigned.

(3) Purchasers of tax credits covered by this Chapter shall be exempt from taxation under Subtitle A of the Puerto Rico Internal Revenue Code on the difference between the amount paid to acquire such credits and the value of such credits and such purchasers shall not be subject to the provisions of Chapter 1 of Subtitle F of the Puerto Rico Internal Revenue Code with respect to such credits.

(k) **Adjustment to the base.** - The basis of any capitalizable asset for which the credit provided for in this Chapter is claimed shall be reduced by the amount of the credit claimed. For purposes of this Article, the assignment or sale of the receivable shall be considered as a receivable claimed by the assignor.

(l) The amount eligible for credit under Section 3030.01 of the Code is limited to that Special Eligible Investment which has not been invested in those assets eligible under paragraph (a) of sections 2062.06 and 2072.06 of the Code or similar special deduction under prior incentive laws.

(m) **Refund.** - This credit will not generate a refund, as provided in Section 3000.02(a)(5) of the Code.

(n) **Reinvestment of the amount granted in Credit.** - An Exempt Business under the Code will have to reinvest an amount equivalent to the Tax Credits granted for R&D activities in R&D activities carried out in Puerto Rico.

(o) An Exempt Business whose Decree has been issued under the Prior Incentive Laws, may claim the credits to which it is entitled under such Prior Incentive Laws in lieu of the credit provided for in this Article so long as such credits continue to be available under such Prior Incentive Laws.
CHAPTER 4. - RESERVED

CHAPTER 5. - CREATIVE INDUSTRIES TAX CREDITS

Article 3050.01(a)-1. - Creative Industries Tax Credit Application Process.

(a) The Exempt Business that complies with the requirements established in Section 3050.01 of the Code for the granting of Tax Credits, shall complete and submit an application to the Incentive Office through the Portal established by the DDEC for these purposes. The Exempt Business shall also file an application for Tax Credits with the Secretary of the Treasury for the endorsement or granting of such credits. To be considered, the application must be submitted before the completion day of the Principal Photograph. In the case of independent post-production recordings ("standalone"), video games or soundtrack and dubbing recordings ("dubbing recordings"), the application must be submitted before the end of post-production or production, respectively.

(b) The Incentive Bureau will review the application and may request additional documents or information if deemed necessary.

(c) The Treasury Department will review the application for an endorsement determination.

(d) After the Department of Revenue reviews the application, if it determines to endorse the application, it shall make a reserve of the requested Tax Credits per Fiscal Year and notify the DDEC Secretary, who, after evaluating the application for a Decree under Chapter 9 of Subtitle B of the Code, may issue a Notice of Intent to Issue Tax Credit (the "Notice of Intent"). The Notice of Intent shall specify the estimated percentage of Tax Credits reserved.

(e) The Applicant shall pay, by means of the purchase of a receipt from an internal revenue collection agency of the Department of Treasury, fees equivalent to 1% of the Production Expenses of Puerto Rico, up to a maximum rate of two hundred and fifty thousand dollars ($250,000.00) as established in Article 3050.01(i)-1 of these Regulations (the "Submission Fee").

(f) Once the Film Project incurs expenses eligible for the determination of the Tax Credit and the information necessary to complete the Report is provided, as defined below, the certified public accountant will have thirty (30) days to complete the Report and issue the Auditor's Certification provided for in Section 3050.01(d) of the Code. This term may be extended by the Incentive Bureau for reasonable cause. Failure to submit the Report by the required date may be considered a failure to comply with the Decree and the Tax Credits reserved may be forfeited. In such cases, the Exempt Business may resubmit the application and request that the filing fees paid be applied to this
new application, which shall be subject to the availability of Tax Credits as of the date of such submission.

(g) The Report and Auditor Certification will be submitted to the Incentive Bureau for review. The Incentive Bureau will forward these to the Treasury Department upon receipt.

(h) Within thirty (30) days after receiving the Auditor's Report and Certification, the Secretary of the Treasury will certify to the Incentive Bureau the Tax Credits corresponding to the Film Project (the "Tax Credit Certification"). This 30-day period may be interrupted if the Secretary of the Treasury requests additional information from the authorized public accountant. After receiving the requested information, the Secretary of the Treasury will have the remainder of the thirty (30) day period to complete the certification process.

(i) Upon receipt of the Tax Credit Certification, as required by Code Section 3050.01(d), the Incentive Bureau shall notify the DDEC Secretary of the Tax Credit determination and the DDEC Secretary shall sign the Tax Credit Certification. Thereafter, the Incentive Bureau shall deliver the Tax Credit Certification signed by DDEC's Secretary to the Licensee, provided the Licensee has completed payment of the applicable filing fee and the Filing Fee. At that time, the Licensee shall also pay an additional fee of a total of 1% of the Production Expenses of Puerto Rico, corresponding to the payments made to Foreign Persons designated as "Below the Line", as set forth in the Report ("Non Resident Below the Line Fee").

**Article 3050.01(a)-2. - Report of Agreed Procedures.**

(a) The Exempt Business will hire an independent certified public accountant duly authorized to practice in Puerto Rico to complete an agreed upon procedure document (the "Report"), to validate the amount of the Production Expenses of Puerto Rico. The name and information of the CPA will be submitted to the Incentive Bureau for evaluation and approval prior to participation. The Incentive Office may consider the CPA's prior experience with other Film Projects and the compensation arrangement as part of its evaluation of the CPA.

(b) Once the Film Project incurs expenses eligible for the determination of the Tax Credits and it is desired to apply for one of the deadlines, as provided in Section 3050.01(c)(2), the Grantee will provide the certified public accountant with all documents and information necessary to prepare the Report. The delivery of this information shall be made under oath.

(c) Upon completion of the Film Project, the certified public accountant shall prepare the Report and certify the items in the application for Tax Credits pursuant to Code Section 6030.01, the provisions of these Regulations, and any applicable regulations,
administrative determination, circular letter or newsletter adopted by the Department of Finance.

(d) The Report shall be submitted to the Office of Incentives and the Department of Revenue within the time limit set forth in paragraph (f) of Article 3050.01(a)-1 of these Regulations, or any other time limit established by the DDEC Secretary through administrative determination, circular letter or newsletter. Failure to comply with the dates or terms of compliance set forth herein may serve as just cause to revoke the granting of the Tax Credit.

(e) The CPA must be duly authorized to practice the profession in Puerto Rico, not be related to the Exempt Business or the Producer, nor be under any other type of contract or agreement with the Exempt Business or the Producer.

(f) The maximum amount of Tax Credit that may be granted will be confirmed upon completion of the Film Project in accordance with the certification of the Puerto Rico Production Expenditures made by the authorized public accountant through the Report, subject to payment of the remaining balance of the Filing Fee and the total amount of the Non-Resident Below the Line Fee.

(g) Reporting will be carried out in accordance with the "Statements on Standard for Attestation Engagements" applicable to reports of agreed procedures and the certified public accountant must have sufficient knowledge of generally accepted or recognized accounting principles and practices in the film and television industry.

(h) The Report will include: (i) a schedule of eligible expenses incurred by calendar year, and (ii) notes to the Report, including the notes described in paragraph (q) of this Article. The schedule of eligible expenditures shall include the full name of the person who received the payment, the date of disbursement, and the appropriate budget line item.

(i) The Report will be signed and sealed in accordance with applicable regulations.

(j) Puerto Rico's Production Expenses will be eligible for Tax Credits subject to (i) in the case of production and post-production expenses, those incurred as of the day indicated in the request for Contributive Credits and (ii) in the case of development and pre-production expenses, those that can be validated as related to the Film Project covered by the Decree. However, Puerto Rico's Production Expenses may be eligible for Contribution Credits from a date prior to the request for Contribution Credits in accordance with Article 2092.06(a)-1 of these Regulations.

(k) The Report must be addressed to the Exempt Business. The name, address and telephone number of the CPA must be evident on the Report. The Report must be dated at the end of the field work. The title of the Film Project must be disclosed. In addition, the period during which expenses were incurred must be indicated.

(l) The evaluation of expenditures and disbursements by the CPA shall conform to the following minimum procedures:
The certified public accountant must verify each disbursement made to determine that (i) has been properly billed to the Exempt Business or its designee, (ii) has been paid by the Exempt Business or its designee, (iii) relates to the production expenses of the Film Project, and (iv) is considered an eligible expense.

The CPA will examine invoices, source documents, contracts and cancelled checks. He or she will also verify that: (i) all deposits associated with the 20% withholding requirements applicable to payments to Qualified Non-Residents have been made by comparing the deposit coupon for the tax withheld on the source Form 480.31 (field labeled "other") and the 480.6C information returns with the Qualified Non-Resident expenses claimed by the Exempt Business and (ii) all Puerto Rico Production Expenses claimed correspond to the economic reality of the transactions, that the benefit to Puerto Rico is more than a simple conduit transaction and that it represents a true purchase and sale by a provider of services or goods from Puerto Rico. The Incentive Bureau may allow certain conduit transactions when doing so would further the purposes of the Code and the best interests of the people of Puerto Rico.

The expenses must be included in the appropriate budget line. Costs covered by making a lump-sum payment should be broken down by category, quantity and supplier (if the main supplier contracts with other suppliers to provide the item or service, all suppliers in the supply chain should be identified). The production expenses that will qualify for the Production Tax Credit will not exceed what is generally paid for each type of expense in the industry.

For expenses that are considered only partially eligible, the CPA must verify the expense allocation formula to ensure that Puerto Rico's Production Expenses are properly reflected.

The Expense Report must be in U.S. dollars. Only the Film Project's production expenses can be recorded as production expenses. Reimbursements and credit notes received for discounts, returns, billing errors and purchase returns must be credited to the production expenses; similarly, revenue from the sale of props and other production assets must be deducted from the expenses presented in the Expense Report. Where support assets and other production assets are held in inventory for future production, they should also be deducted, at fair market value, in the Expense Report. Completion bonding expenses should reflect any "non-rebate claims" received. Amortization of serial expenses should be allocated to the specific expense categories.

The Incentive Bureau may authorize the use of a sampling method to perform the reporting procedures. In that case, the selection of eligible expenditures and expenditures incurred should be made using only an acceptable statistical sampling
method (i.e., unit dollar sampling, CMA, PPS, etc.) and not a non-statistical method (i.e., "scopes," "judgemental," etc.).

(p) The Incentive Bureau may request from the CPA any information it deems necessary to validate the information submitted as part of the Report.

(q) Notes to the Report should include the following disclosures and attachments:

1. The amount spent in each Calendar Year on general expenses and on the payroll of employees in Puerto Rico.

2. All non-Puerto Rican expenses must include the budget line item and the amount of the transaction (if there are no non-Puerto Rican expenses, the expense report must include a note to that effect). Non-Qualified Resident expenses must be broken down as above the line ("Above the line") and below the line ("Below the line").

3. All transactions of related entities or persons (as defined in the Puerto Rico Internal Revenue Code) and must include the following: (i) the name of the related entity or person, (ii) the nature of the relationship between the related parties and the film production entity, (iii) the nature of the transaction, and (iv) the amount of the transaction. If there are no transactions of related entities or persons, the expense report must include a note to that effect.

4. The amount of accounts payable, accrued and deferred expenses must be reported separately as of the completion date of the Report. If there are no accounts payable, accrued or deferred expenses, the Report must include a note to that effect.

5. All sources of funds that were used to finance the production of the Film Project, including non-monetary transactions that were included in the cost of production, will be disclosed. Non-cash transactions must be disclosed at fair market value.

6. The nature of the services provided and the consideration for the services must be disclosed. If there were no non-cash transactions, the expense report should include a note to that effect.

7. A statement that any disbursements for repairs of damage caused by natural disasters such as hurricanes, floods or earthquakes are excluded from eligible expenses reported.

8. A statement that the estimated expenses of the time spent by the Producer or any partner or shareholder of the Exempt Business are excluded from the eligible expenses reported.

9. A statement that the allocation of expenses was made in accordance with the allocation method determined by the company.

(r) For purposes of Code Section 3050.01(c)(iii), as part of their Report, the CPA and the Incentive Bureau may request and review such evidence as they deem necessary to
establish that the Domestic Task Force in charge of the Film Project is comprised of Domestic Persons. At a minimum, the Report will certify the following:

1. That the agreements and documents related to the Domestic Task Force are in compliance with all requirements of the Code and these Regulations; and
2. That the Domestic Task Force meets the residency requirements on the start date of the Principal Photograph.

(s) The Licensee shall submit at least two (2) of the following documents for each of the components of the Domestic Working Group:

1. Driver's license;
2. Merchant's Certificate of Registration;
3. Bills for utility services such as the Puerto Rico Electric Power Authority or Puerto Rico Aqueduct and Sewer Authority;
4. Mortgage or lease contract;
5. Proof of filing of income tax returns;
6. Evidence of a bank account in Puerto Rico; and
7. Credit card bill with residential address in Puerto Rico

(t) The Incentive Bureau reserves the right to review and request revisions to the Report to ensure compliance with the requirements of the Code and these Regulations. In addition, the Incentive Bureau may issue and publish a model of the Report to be used by the CPA.

**Article 3050.01(i)-1. - Rights to be Paid.**

(a) The Exempt Business must pay, by means of the purchase of a voucher in an internal revenue collection office of the Department of Treasury, duties equivalent to 1% of the Production Expenses of Puerto Rico, up to a maximum rate of two hundred and fifty thousand dollars ($250,000.00). Fifty percent (50%) shall be paid at the time of issuance and acceptance of the Notice of Intent as set forth in Article 3050.01(a)-1(d) of these Regulations. The first 50% of the Filing Fee shall be based on the estimate of the total Production Costs of Puerto Rico. The balance of the Filing Fee shall be paid at the time of filing the Report, as set forth in Section 3050.01(a)-1(f) of these Rules.

**Article 3050.01(h)-1. - Reserved.**
SUBTITLE D. - GRANTS AND OTHER PROGRAMS

CHAPTER 1. - WAGE SUBSIDY PROGRAM FOR AGRICULTURAL WORKERS

Article 4010.01-1. - Definitions.

(a) For purposes of this Subtitle D and the following terms, phrases, and words shall have the meaning and scope set forth below:

(1) **Harvest.** - Means the marketable product to be harvested from the plantation, breeding, propagation or fish, during the term of the Production-Based Wage Subsidy Program.

(2) **Equipment.** - Means each of the instruments or devices of manual operation, technology or mechanics, that are necessary and used to estimate the production in the agricultural operation.

(3) **Program.** - Means the Production-Based Wage Subsidy Program set forth in Section 4010.01(a)(1) of the Code.

(4) **Proposal.** - Means the written plan submitted by the applicant, which shall comply with the requirements set forth in these Rules and Regulations, and applicable federal and state laws and regulations, and which shall be subject to the recommendations of the Evaluation Committee and the Consultant or Expert. It must be formal, detailed, include pianos, sketches, specifications, and must establish the agricultural use of the requested items.

(5) **Authorized Representative.** - Means the person delegated by the farmer to sign all documents of the Department of Agriculture, ADEA and DDEC, by means of a sworn statement or corporate resolution before a notary public.

(6) **Grant Salary.** - Means the money that is reimbursed to eligible farmers who receive the subsidy on a production basis. It also includes money to be reimbursed for payroll expenses for payment of employer responsibilities, which cannot be less than $2.72, per certified hour worked.

(7) **Applicant.** - Means the Person who owns a farm dedicated to agricultural use, or who has a legal tenancy of it, its representative or authorized agent. Said term shall also include any tenant, usufructuary or subject who has a legal relationship such as the owner of a farm, his agent or authorized representative, which allows him to act in accordance with the requirements of these Regulations, the Code and any other regulations approved under them.
Article 4010.01(a)(2)-1. - Establishment of Farmworker Wage Subsidy Program.

(a) **Wage subsidy.** - The provisions governing the Wage Subsidy Program for Agricultural Workers shall be established by regulation by the Secretary of Agriculture in compliance with the provisions of the Code and these Regulations, to provide clear mechanisms for the determination of reimbursements, among other purposes.

Article 4010.01(b)(2)-1. - Method of Payment.

(a) By these Regulations, the DDEC Secretary establishes the criteria governing the determination of Farmworkers who shall be eligible to receive benefits under Code Section 4010.01.

(1) Among the criteria, the following should be considered:

(A) The number of hours that workers must work per week in relation to seasonal and non-seasonal crops and agricultural activities;

(B) Wage subsidies to be reimbursed, taking into consideration the different human work needs required to produce each kind of crop based on the degree of mechanization achieved by each company and each group of entrepreneurs;

(C) Wages paid in Puerto Rico in each class of agricultural and agro-industrial activity; and

(D) Any other factors that, in the opinion of the Secretary of Agriculture, should be taken into consideration.

(b) Wage subsidy payments to farmers shall be made no later than 60 days after the Secretary of Agriculture has received the reports referred to in paragraph (3) of Section 4010.01(b) of the Code along with the documentation required under Sections 5010.01(f)-4(a)(10), 6040.01(c)-1, and 6040.01(c)-3 of these Regulations.
SUBTITLE E. - FUNDS FOR THE GRANT OF BENEFITS

CHAPTER 1. - ECONOMIC DEVELOPMENT FUNDS

Article 5010.01(d)-1. Economic Incentive Fund ("EIF").

(a) **Eligibility.** - For purposes of this Chapter, the term "Eligible Proposer" means an applicant for incentives to be funded by the Economic Incentive Fund ("EIF") as provided in Section 5010.01(d) of the Code and who meets all of the eligibility requirements set forth in the following sections of the Code:

1. Strategic Projects, as set forth in Section 2014.01 of the Code.
2. Student Loan Repayment Program for Physicians or Dentists, Veterinarians, and Research Scientists with Research Intensive Doctoral Degrees in Health Care, pursuant to Code Section 2022.06
3. Qualified Promoter, as set forth in Section 2034.01 of the Code.
4. Incentives for Agricultural Research, as provided in Section 2084.01 of the Code
5. Programs for Youth, Student Internships, Entrepreneurship, and First Employment Experiences for Youth, as provided by Code Section 2025.01.
6. Programs for the Elderly, as provided in Section 2025.02 of the Code.
7. Support for Small and Medium-Sized Businesses through the Preferred Income program, as set forth in Section 2100.02 of the Code.
8. Business Incubator Program set forth in Section 2100.03 of the Code
9. Incentive for the Puerto Rico Cruise Ship Industry, as provided in Section 2110.03 of the Code.
10. Farmworker Wage Subsidy Program, as provided in Section 4010.01 of the Code
11. Annual Farmworker Bonus, as provided in Section 4010.02 of the Code.
12. Incentive for the Development of the Film Industry of Puerto Rico, as provided in Section 5010.02 of the Code
13. Incentives for the Creative Industries, as set forth in Section 5010.03 of the Code
14. Any other incentive currently paid out of any of the predecessor funds, provided that such term refers to the funds specifically listed in paragraph (i) of Section 5010.01 of the Code.

(b) It is further provided that the Eligible Proposer must comply with all the evaluation criteria, requirements and/or procedures as set forth in the article of these Regulations corresponding to the section of the Code that establishes such Program, and according to the provisions of the Code that establishes the Program under which the proposal is
made. In the case of proposals submitted under incentives arising from any of the laws establishing the predecessor funds, it is provided that such proposals shall comply with the criteria of the applicable law and regulations, if any.

(c) To apply for the Economic Incentives referred to in this Chapter, the Eligible Proposer must submit through the Portal an "Incentive Proposal" that complies with the requirements of Section 6050.01 of the Code and these Regulations.

(d) It is provided that, for purposes of this Chapter, when the term "Program" is used, it refers to the incentive set forth in the Code, or prior law, for which the Eligible Proposer is applying for incentives under this Article. When the term "Programs" is used, it refers to all the incentives that are funded by the EIF, as listed in paragraph (a) of this Article.

**Article 5010.01(f)-1. - Economic Benefits of the Economic Incentive Fund.**

(a) The allocation and disbursement of EIF monies must be approved by the DDEC Secretary and established by means of an Incentive Contract, which must be registered with the Puerto Rico Comptroller's Office. It is provided that, for the purposes of this Chapter, the term "Incentive Contract" refers to the document granted by a Person or Entity requesting an Economic Incentive and the DDEC Secretary, in which the terms and conditions of such grant are established. This contract shall comply with all requirements of Section 6050.01 of the Code and these Regulations.

**Article 5010.01(f)-2. - Incentive Proposal Evaluation and Selection Period**

(a) **General rule.** - The evaluation period of all Incentive Proposals submitted in accordance with these Regulations shall be as set forth below:

1. The DDEC Secretary shall issue at least one (1) notice per year, per Program, by means of a Notice in a newspaper of general circulation, which shall inform about the different Economic Incentives available under the EIF and provide information related to the application process, applicable requirements, evaluation criteria and any other information it considers relevant. These notifications shall also be published on the Portal or any other digital media considered by the DDEC Secretary.

For purposes of this Chapter, the term "Call" means the notice or notification from the DDEC Secretary or the Incentive Office in which the public will be invited to submit proposals for the application of Economic Incentives under the applicable provisions of Code Section 5010.01 and the section of the Code that establishes the Program.

The Call will also include the proposal submission period for the particular Program, a summary of the process to submit the proposal, the maximum
number of proposals to be accepted during the corresponding Program period, among others.

(b) The DDEC Secretary will evaluate the Incentive Proposals throughout the Fiscal Year. All Incentive Proposals will be received by the Incentive Office through the Portal. Proposals shall comply with the documentation requirements set forth in Code Section 6050.01 and the corresponding Article(s) of these Regulations. If they do not comply with such requirements, the Incentive Proposal will not be considered and/or submitted for evaluation.

**Article 5010.01(f)-3. - Evaluation, Incentive Bureau.**

(a) Generally Applicable Provisions. - The evaluation of Incentive Proposals shall be as provided below unless otherwise stated in paragraph (b) of this Article:

1. The Incentive Office shall evaluate Incentive Proposals according to the procedure set forth in this Article.

2. The Director of Incentives may delegate the evaluation of the Incentive Proposals when the Incentive Proposal is related to a technical or novel area beyond the knowledge of the Incentive Office and advice from persons or entities external to the DDEC is required. The Director of Incentives may also delegate the evaluation when necessary to maximize the resources of the Incentive Office.

3. The evaluation of Incentive Proposals may not be delegated if doing so creates a conflict of interest or violates any of the provisions of Law No. 1 of January 3, 2012, better known as the Puerto Rico Government Ethics Act, or any other applicable or successor law.
(b) **Specific Application Provisions.** - In cases where the Incentive Office evaluates an Incentive Proposal submitted by a government agency of the Government of Puerto Rico, the DDEC Secretary may establish different terms, alternate and/or interagency procedures for the purpose of expediting the evaluation and granting of the Economic Incentive.

**Article 5010.01(f)-4. - Evaluation Criteria.**

(a) In addition to considering the eligibility requirements set forth in the applicable section of the Code and the corresponding article(s) of these Regulations, the following criteria shall be considered in the evaluation of Incentive Proposals:

1. **Strategic Projects under Section 2014.01 of the Code** - They will be those projects that are based on the best interest and for the economic and social welfare of Puerto Rico, including
   
   (A) Projects that generate and/or retain jobs, with the provision that the DDEC Secretary will take into consideration both the quantity and quality of the jobs generated,
   
   (B) Projects that promote the use of new technology, including through research and/or development;
   
   (C) Projects that stimulate the transfer of technology and knowledge in Puerto Rico
   
   (D) Projects that generate additional investment in Puerto Rico and vertical integration of production or that belong to some of the business conglomerates classified as high economic impact by the DDEC Secretary;
   
   (E) The DDEC Secretary and the Secretary of Finance may also consider as Strategic Projects those projects that will substantially impact the economy and that therefore qualify as a Strategic Project.

2. **Student Loan Repayment Program for Physicians or Dentists, Veterinarians and Research Scientists with Research Intensive Doctoral Degrees in Health Care.** - It will be evaluated according to the following criteria:

   (A) Medical, dental, veterinary or health research specialties or subspecialties for which there is a shortage of physicians, dentists, veterinarians or researchers;
   
   (B) geographic areas with a shortage of primary care physicians, dentists, veterinarians or health research scientists;
   
   (C) geographical areas in which the doctor, dentist, veterinarian or health researcher will provide services;
(D) academic experience of the applicant,
(E) applicant's work experience, if applicable
(F) any other factor that the DDEC Secretary considers to be determinative of the evaluation of the application
(G) In the case of the practice of pediatrics, the criterion of geographical area will not apply. However, the remaining criteria will apply to the practice of pediatrics.

(3) Qualified Promoter under Section 2034.01 of the Code. - Will be evaluated according to the criteria set forth in Section 2034.01(a)(3)-1 of these Regulations.

(4) Agricultural Research Incentives under Code Section 2084.01. - It will be evaluated according to the following criteria:
   (A) That research promotes highly technical agriculture
   (B) Research into techniques that improve local production so that demand for agricultural products in Puerto Rico can be met and exports increased
   (C) That the research promotes Puerto Rico's self-sufficiency in terms of the supply of agricultural products
   (D) Any other requirements established by the DDEC Secretary

(5) Programs for Youth, Student Internships, Entrepreneurship and First Employment Experiences for Youth under Code Section 2025.01 –
   (A) Youth or Young Students who wish to participate in the following programs under the Youth Development Program or YDP must meet the requirements set forth below:
     (i) My First Job
        (1) The age of the participants will be 16-29 years old. In case of minors under 18, they must have authorization from their parents or guardian and the Puerto Rico Department of Labor.
        (2) All participants must be duly enrolled and in their last academic year prior to graduation in a vocational course, technical degree, associate degree, bachelor's degree, master's degree, doctorate or postgraduate degree at an Institution of Higher Education.
        (3) Employment experience should be in your field of study or related to the field.
        (4) Young people who have graduated from a vocational course, technical degree, associate's degree, bachelor's degree, master's degree, doctorate or postgraduate degree at
a public or private institution of higher education, who at the time of graduation have not been previous participants in the My First Job program, but have not obtained employment in their field of study or related field, may be participants in My First Job within one calendar year of graduation.

(5) The Youth must provide the information and documentation required by the PDJ as established by the calls.

(6) The period of work experience will be no longer than 600 hours or eight months. The salary will be $8.00 per hour or the amount established in the call, which will be contributed by the PDJ. This will not limit the employer in the event that they wish to make an additional contribution to the Young Student's hourly salary. The employer must notify the PDJ in writing. The term "Young Student" shall mean any Young Person, pursuing studies leading to a technical, vocational, undergraduate, graduate or postgraduate degree in any public or private institution accredited by the Council of Higher Education of Puerto Rico or the entity that assumes its functions.

(7) Employers may be private sector entities or public agencies or instrumentalities of the Government of Puerto Rico. Private Sector Entities must be duly registered and authorized to operate in Puerto Rico and in compliance with the applicable laws and regulations of the Government of Puerto Rico. To evidence such compliance, the PDJ may request certifications from the Department of the Treasury, Department of State, CRIM, ASUME and the municipalities, among others.
(ii) Student Internships

1. Be between the ages of 16 and 29
2. Have completed at least one semester or trimester of study in either a public or private high school or institution of higher education
3. Have a 2.00 or higher grade point average.
4. The Young Students must provide the information and documentation required by the PDJ as established by means of calls, regulations, administrative determination or circular letter. For the purposes of this sub-item, "Young Students" shall mean any young person, pursuing studies leading to a technical, vocational, undergraduate, graduate or post-graduate degree in any public or private institution accredited by the Council of Higher Education of Puerto Rico or the entity that assumes its functions.

(iii) New Entrepreneur Program

1. It must be a New Entrepreneur who submits a "Startup" project. For purposes of this sub-item, "New Entrepreneur" shall mean any Individual Resident of Puerto Rico, whose age fluctuates between sixteen (16) and twenty-nine (29) years of age, who is interested in creating and operating a new business in Puerto Rico for an indefinite term, and who has obtained their high school diploma or an equivalent certification from the Department of Education of Puerto Rico, or who are still studying and present evidence that they are studying for a high school certificate or diploma according to the criteria adopted by regulation. Likewise, the term "Startup" shall mean a newly created entity that markets products and/or services with a business model that allows for multiplying performance while keeping the cost as low as possible. This business model allows a rapid and sustained growth in the initial stages of its operation. For these purposes, the Entity shall be considered to be newly created if it began operations within the Calendar Year prior to applying for the benefits provided by Section 2025.01 of the Code.
2. The job creation potential of the "Startup"
3. The innovation of the "Startup" compared to other ideas or business projects;
(4) The need in Puerto Rico of the service or product that provides the "Startup";
(5) Any other requirements or criteria that you feel are appropriate to consider the PDJ Programs for the Elderly Section 2025.02 of the Code - It will be evaluated according to the following criteria:

(A) Capacity, reputation and experience of the organization in providing services to the elderly
(B) The projection of Senior Citizens that the organization will attend during the year that it receives the Economic Incentive.
(C) The amount of Economic Incentive required for the creation or expansion of the organization compared to the additional number of Seniors that this creation or expansion would serve.
(D) The geographic areas that the organization will serve.
(E) Elderly groups to be served, meaning abused persons, persons with disabilities and any other group that the DDEC Secretary deems justified in accordance with the purposes of the Code.
(F) Letters of intent or recommendation from associations, organizations or groups of older persons who wish to benefit, or have benefited, from the services provided by the organization.
(G) Capacity and experience of the organization's management team.
(H) Ability to create links with other for-profit or non-profit organizations that serve primarily the elderly.
(I) Capacity to attend, through the use of the requested Economic Incentive, a greater number of Elderly People in an effective way.
(J) Ability to obtain other sources of complementary or matching funds.
(K) Other characteristics determined by the DDEC Secretary according to the proposal presented.

(7) Supporting Small and Medium-Sized Businesses Through the Preferred Rental Program under Section 2100.02 of the Code. - It will be evaluated according to the following criteria:

(A) The Eligible Bidder must be a Person or Entity that conducts, or contemplates conducting business in Puerto Rico, regardless of its place of organization, that is an SME.
(B) Any other requirements considered by the DDEC Secretary

(8) Business Incubator Program Section under Code Section 2100.03 - It will be evaluated according to the following criteria:
The projection of jobs to be created in a new or expanding incubator for each of the first five (5) years after the date you receive the Economic Incentive. For these purposes, the following will be considered:

(i) That the projection is based on historical data from the incubator, when this is possible.
(ii) The average number of jobs by industry.
(iii) The number of jobs needed for industry operations.
   
   (1) Example: Businesses dedicated to the retail industry will require a minimum number of employees from the beginning of their operations, while in the case of businesses with innovative projects, such as "startup tech", the hiring of employees is not necessarily required at the beginning of operations.

(iv) Any other reasonable factors related to the type of industry that the DDEC Secretary believes should be considered.

The funds required to create or expand a business incubator during the first five (5) years after the date you receive the Economic Incentive.

The types of business and research entities that are expected to participate in the business incubator and the surrounding community.

Letters of intent from business and research entities to establish a space in the business incubator. The letter of intent should be accompanied by evidence, including, but not limited to, market studies or analysis, that proves the need to develop the industry in which the business to be incubated will operate.

The ability to attract well-qualified personnel to a business incubator.

Ability to provide and link to resources in order to complete a Minimum Viable Product.

The management of the business incubator.

Financial sustainability.

Environmental responsibility.

Capacity and experience of the incubator management team.

Proper structuring of support to clients and to the strategic and operational management of the incubator.

Innovation in terms of the segment of economic activity to be served.

Growth potential of the sector of the economy to be served.

Expected impact on the economic growth rate of the sector served.

Integration of environmental sustainability variables in the operation and management of incubated.
(P) Integration of social responsibility principles in the training of the entrepreneurs served.

(Q) Capacity to attend, through the use of the requested Economic Incentives, to a greater amount of clients in an effective way.

(R) Ability to obtain other sources of complementary or matching funds.

(S) Current or potential impact of its incubators on the economy in terms of investment, capital created and jobs generated.

(T) The export capacity of its hatcheries.

(U) The multiplier effect of incubated companies on the economy of their region.

(V) The objectives of the proposal meet the purpose of establishing projects or programs aimed at creating or strengthening the business incubator sector.

(W) The proposal has adequate support resources and infrastructure to achieve its objectives.

(X) The proponent defines an appropriate procedure for the evaluation of the processes and results of the project including performance or execution indicators.

(Y) The budget is reasonable and cost efficient.

(Z) Other criteria determined by the DDEC Secretary in accordance with the Incentive Proposal submitted.

(9) Incentive for the Puerto Rico Cruise Ship Industry under Section 2110.03 of the Code. - It will be evaluated according to the following criteria:

(A) Incentive proposals that would establish Puerto Rico as a regional and worldwide cruise home port destination;

(B) Incentive proposals to increase cruise ship traffic to Puerto Rico;

(C) Incentive proposals that increase the stay of cruise ship passengers in hotels in all regions and municipalities of Puerto Rico, and on all the islands of its archipelago (Vieques, Culebra and others);

(D) Incentive proposals that increase visitation and passenger volume on cruise ships visiting Puerto Rico;

(E) Proposals for incentives that encourage consumption in Puerto Rico by passengers and crew, including the cost of acquiring provisions and the operating costs of the cruise ships that visit us;

(F) Incentive proposals that generate and increase the benefits received by different economic segments in Puerto Rico linked directly and indirectly to the cruise ship industry;

(10) Farmworker Wage Subsidy Program under Code Section 4010.01 - It will be evaluated according to the following:
(A) The evaluation of Incentive Proposals will be based on the following criteria
   (i) Ability to serve as many Farmworkers as possible
   (ii) Impact of the program on the different sectors that make up the agricultural industry in Puerto Rico
   (iii) Impact of the program in the different geographical areas that make up the agricultural industry in Puerto Rico
   (iv) Any other factors that, in the opinion of the DDEC Secretary, should be taken into consideration
(B) To the extent that the DDEC Secretary delegates this Program, in whole or in part, to the Secretary of Agriculture, the criteria for evaluation shall include those established by the agency through regulations, circular letter, administrative decree or other official document.

11 Annual Farmworker Bonus under Code Section 4010.02 - It will be assessed according to the following:
   (A) The evaluation of Incentive Proposals will be based on the following criteria
       (i) Ability to serve as many Farmworkers as possible;
       (ii) Impact of the program on the different sectors that make up the agricultural industry in Puerto Rico;
       (iii) Impact of the program in the different geographical areas that make up the agricultural industry in Puerto Rico; and
       (iv) Any other factors that, in the opinion of the DDEC Secretary, should be taken into consideration
   (B) To the extent that the DDEC Secretary delegates this Program, in whole or in part, to the Secretary of Agriculture, the criteria for evaluation shall include those established by the agency through regulations, circular letter, administrative decree or other official document.

12 Incentive for the Development of the Film Industry of Puerto Rico pursuant to Section 5010.02 of the Code - It will be evaluated according to the criteria established in Section 5010.02(a)-1 of these Regulations.

13 Incentives for the Creative Industries under Section 5010.03 of the Code - You will be assessed under Section 5010.03(a)-1 of these Regulations
   (b) In the event that a call or similar process for the granting of an Economic Incentive is carried out, the DDEC Secretary may assign a higher priority to the projects that have a higher ROI calculation.
   (c) The DDEC may deny a proposal submitted under the provisions of Section 5010.01 of the Code in the following instances:
The applicant does not comply with the requirements set forth in the Code, these Regulations, the parameters established in each Program, or the proposal is not in accordance with the best interests of Puerto Rico, according to the applicable public policy, for example, if the proposal does not comply with the applicable model of ROI;

Funds are not available for the requested incentive;

The applicant does not submit information that DDEC or the Director determines is necessary to evaluate the incentive application;

The information provided by the applicant in any document, whether or not related to the requested incentive, is false or fraudulent; or

Any other valid reason that justifies your refusal.

Section 5010.01(f)-5. - Terms for Evaluation of Incentive Proposals.

(a) Provisions of general application. - The term for the evaluation of Incentive Proposals shall be as provided below unless otherwise stated in paragraph (b) of this Article:

1. Upon receipt of the Incentive Proposal through the Portal (or through the process otherwise established in the Notice), the DDEC Secretary shall have a term of ninety (90) days from the date of submission to make a determination regarding such proposal.

2. For these purposes, the submission date shall be the date on which the Incentive Proposal meets all the requirements set forth in Code Section 6050.01 and these Regulations that apply to the Program under which the proposal was submitted.

3. In the event that the Incentive Director requests additional information or correction of information already provided, the ninety (90) day period will be interrupted until the requested information is provided or the error is corrected. To complete the evaluation of the Incentive Proposal, once the requested information is provided or the error is corrected, the Incentive Director will have the number of days remaining to complete the ninety (90) days when the additional information was requested or the error was notified.

4. In cases where the Incentive Office evaluates an Incentive Proposal submitted by an agency of the Government of Puerto Rico, the DDEC Secretary may establish different terms, alternative and/or interagency procedures for the purpose of expediting the evaluation and granting of the Economic Incentive. The term of evaluation of the proposal in these cases may not exceed ninety (90) days.

(b) Exception in relation to Qualified Promoter. - In the case of the provisions of
Section 2034.01 of the Code and the corresponding Articles of these Regulations, the DDEC Secretary shall evaluate the proposal, taking into consideration the criteria, requirements and provisions set forth in these Regulations, within a period of thirty (30) days from the filing of the application, unless there is just cause.
Article 5010.01(f)-6. - Evaluation Procedure.

(a) Generally Applicable Provisions. - The procedure for the evaluation of Incentive Proposals shall be as provided below unless otherwise stated in paragraph (b) of this Article. Provided that, in all cases, the evaluation shall be within the terms, criteria, and eligibility requirements set forth in the corresponding Code Section and Article 5010.01(d)-1 of these Regulations:

(1) Incentive Proposals shall be evaluated by the Incentive Bureau, which shall base its decision on the documents submitted pursuant to Code Section 6050.01 and the criteria set forth in Article 5010.01(f)-4 of these Regulations. The Incentive Bureau will issue its evaluations in writing and/or by communication with the Eligible Proposer through the Portal.

(2) If it is necessary to certify any item included in the Incentive Proposal, the Eligible Bidder must support it by submitting to the Incentive Office an Agreed Upon Procedures document made by a Certified Public Accountant licensed in Puerto Rico. The Agreed Upon Procedures document will include the procedures and items required in writing by the Incentive Director to the Eligible Proposer.

(3) The Incentive Office may call the Eligible Bidder by e-mail and/or through the Portal, to a session of oral presentations ("pitching") if necessary. In these cases, the Office will notify the Eligible Bidder at least 30 days in advance to prepare its submission.

(4) After evaluating the Incentive Proposals, the Incentive Office will provide a recommendation to the DDEC Secretary for a final determination.

(5) Once the final determination is made by the DDEC Secretary, the Eligible Bidder will be notified through the Portal and/or by email.

(6) The Eligible Bidder shall have thirty (30) calendar days from the date of notice to accept the terms of the Economic Incentive and enter into the Incentive Agreement. Upon expiration of such thirty (30) day period without the Incentive Contract being awarded for reasons attributable to the Eligible Bidder, the Incentive Proposal shall be deemed to have been rescinded. If the DDEC Secretary approves the Incentive Proposal for an amount less than that requested, or subject to modifications, the Eligible Proposer shall have a term of thirty (30) days from the date of notification to submit to the DDEC Secretary arguments that justify the granting of the originally requested amount of the Economic Incentive and/or the voiding of the established modifications. The DDEC Secretary in his sole and exclusive discretion may or may not modify his original determination.
In the event of a denial, the DDEC Secretary shall issue an electronic notification to the applicant, with a brief explanation of the reasons for the denial and advising of the rights and processes allowed under the Code and these Regulations for a request for reconsideration.

The applicant, after being electronically notified of the denial, may request a reconsideration from the DDEC Secretary within twenty (20) working days after receiving the notification, citing the facts and arguments that he considers applicable, including any consideration for the benefit of Puerto Rico that he deems to merit his request for reconsideration.

If the request for reconsideration is accepted, the DDEC Secretary shall notify the petitioner within twenty (20) working days of the receipt of the request for reconsideration. If the petitioner does not respond to the request for reconsideration within this time period, the reconsideration shall be deemed to have been denied and written notice shall be issued to that effect.

Once a request for reconsideration has been received, the DDEC Secretary will evaluate it and may accept any consideration offered for the benefit of Puerto Rico and require and provide for any other terms or conditions that may be necessary to ensure that the incentive awards are in the best interests of Puerto Rico and for economic development purposes. Upon completion of the evaluation process of a reconsideration request that has been received, the DDEC Secretary will notify the applicant of his final determination.

In cases where the Code or applicable provisions of these Regulations do not establish the amount of the Economic Incentive, the DDEC Secretary shall determine the amounts to be awarded to each approved Incentive Proposal as recommended by the Incentive Office within the limits established by the Code, if any, and taking into consideration the availability of funds and the model of estimated Return on Investment.

(b) In cases where the Incentive Office evaluates an Incentive Proposal submitted by a government agency of the Government of Puerto Rico, the DDEC Secretary may establish different terms, alternate and/or interagency procedures for the purpose of expediting the evaluation and granting of the Economic Incentive.
Article 5010.01(f)-7. - Disbursement of Funds.

(a) Generally Applicable Provisions. - The procedure for disbursement of the granted Economic Incentives shall be as provided below, unless otherwise stated in paragraph (b) of this Article:

(1) Within ninety (90) days following the beginning of each Fiscal Year, the Secretary of the Treasury shall certify to the DDEC Secretary the monies paid to the FIE for the immediately preceding Fiscal Year, as well as submit to him a projection of the income to be collected for the current Fiscal Year.

(2) The annual budget of the FIE shall be prepared in the Incentives Office, considering all the Programs that must be covered with such monies and in accordance with public policy and the purposes of the Code and these Regulations.

(3) Once the DDEC Secretary and/or the Director approves the incentive allocation for a Licensee who has signed the respective Incentive Contract, the DDEC will review the documents that evidence such approval and granting, as well as carry out the pertinent operational evaluations for the processing of the incentive payment.

(4) The DDEC shall disburse the Economic Incentive taking into consideration the need for the Incentive Proposal as detailed in the Incentive Proposal and/or the budget submitted, if any.

(5) The terms and conditions for the disbursement will be set out in the Incentive Agreement. Provided, no disbursement will be issued before the Licensee meets all requirements for disbursement set forth in the Incentive Agreement.

Article 5010.01(f)-8. - Special Provisions.

(a) The following special provisions shall apply to the economic benefits granted under the provisions of these Regulations through an Incentive Contract:

(1) Audits. –

(A) All Incentive Proposals that receive approval shall be subject, at the discretion of the DDEC Secretary, to external audits carried out by a firm of public accountants duly authorized to practice that profession in Puerto Rico, hired by the DDEC from the resources allocated to the FIE, as provided in paragraph (k) of Section 5010.01 of the Code and Article 5010.01(k)-1 of these Regulations.

(B) Eligible Bidders must have available all documents related to the approved Incentive Proposal to be evaluated in case of an audit.
Likewise, they must keep the reports, worksheets, attendance, invoices and other documents related to the Incentive Proposal so that they can be examined or photocopied by the Incentive Office, or by the firm of external auditors hired for such purposes by the DDEC or the Puerto Rico Comptroller's Office.

(C) Such documents shall be kept for a period of not less than six (6) years or until an audit is conducted and concluded by the Office of the Comptroller of Puerto Rico, whichever occurs first.

(D) Audits will be conducted on reasonable dates during regular business hours as appropriate to each Eligible Bidder.

(E) The DDEC Secretary may revoke and seek reinstatement of any Economic Incentive award when it finds that the Eligible Bidder has failed to comply with the terms of the Incentive Contract and/or the purposes of the Code. For any recovery of money paid, the DDEC shall use the judicial forums with jurisdiction for the collection action.

(2) **Closing Report.** - The closing report for Incentive Proposals awarded shall be prepared as set forth below, unless otherwise stated in subsection (B) of this paragraph (2):

(A) Generally Applicable Provisions. - The Eligible Proposer to whom the Economic Incentive is awarded shall submit to the Incentive Office, through the Portal, a closing report on or before the expiration of the Incentive Contract, and as established in said contract, with the results of the approved Incentive Proposal, which shall include the information requested by the DDEC Secretary, including:

(i) Data on performance indicators emphasizing the achievement of the objectives included in the Incentive Proposal, the number of people or entities benefited by the initiatives created, comparison of expectations and results achieved, and evidence of the activities carried out with lists of participants and/or photos, and direct and indirect jobs created, where applicable;

(ii) Any other document that evidences the results obtained through the approved Incentive Proposal;

(iii) Additional information requested by the DDEC Secretary for these purposes. The DDEC Secretary may require that such report be completed through the Portal by requiring the completion of the form designed by the DDEC for this purpose.

If the Incentive Office believes the report should be validated, an authorized Incentive Office officer or representative will visit the
Eligible Proposer's facility or cite the Eligible Proposer, and certify that the information provided by the Eligible Proposer in the closing report is correct.

(B) Specific Application Provisions. –

(i) The Repayment of Student Loans to Physicians or Dentists, Veterinarians, and Research Scientists with Research Intensive Doctoral Degrees in the Health Field participating in the Program under Section 2022.06 of the Code shall not be subject to the generally applicable provisions set forth above. However, at the request of DDEC, they shall provide the information necessary for the completion of the disbursement of funds for the repayment of the applicable loan.

It is provided that in the event that the disbursement is received by the applicant, he/she will have to submit evidence of the payment of the debt for the student loan for which he/she received the Economic Incentive.

(ii) Qualified Promoter under Section 2034.01. - Invest Puerto Rico Inc. shall not be subject to the provisions of general application set forth above. However, it will have to submit reports and information requested by the DDEC Secretary, and in accordance with the requirements established by the DDEC.

(iii) Agricultural Research Incentives under Code Section 2084.01. - The Department of Agriculture shall not be subject to the provisions of general application set forth above. Provided, however, that at the request of the DDEC Secretary, the Department of Agriculture shall submit such reports and statements as the DDEC deems necessary, including reports or statements of closure as provided in this Article.

(iv) Programs for Youth, Student Internships, Entrepreneurship and First Employment Experiences for Youth under Code Section 2025.01 - The YDP shall not be subject to the generally applicable provisions set forth above. Provided, however, that at the request of the DDEC Secretary, the Department of Agriculture shall submit such reports and records as the DDEC deems necessary, including reports or closure records as provided in this Article.

(v) Business Incubator Program. - The Eligible Proposer awarded the Economic Incentive under Section 2100.03 of the Code shall submit to DDEC a closing statement on or before the expiration
of the Incentive Agreement with the results of the incubator, which shall include the following information:

1. Data on performance indicators emphasizing how many businesses were developed, evidence of activities carried out with lists of participants and/or photos, community strengthening and direct and indirect jobs created;

2. Projected and/or created jobs;

3. Any other document that evidences the results obtained from the Incentive Proposal approved through the approved Economic Incentive. Until the closing report is submitted to the Incentive Office and evaluated and approved, the DDEC shall withhold ten percent (10%) of the approved Economic Incentive. If the Incentive Office understands that the Incentive needs to be validated, an authorized officer or representative of the Incentive Office will visit the Business Incubator and certify that the information provided by the Eligible Proponent in the closure report is correct.

(vi) Farmworker Wage Subsidy Program under Code Section 4010.01
- The Department of Agriculture shall not be subject to the generally applicable provisions set forth above. Provided, however, that at the request of the DDEC Secretary, the Department of Agriculture shall submit such reports and statements as the DDEC deems necessary, including reports or statements of closure as provided in this Article.

(vii) Annual Farmworker Bonus under Code Section 4010.02 - The Department of Agriculture shall not be subject to the generally applicable provisions set forth above. Provided, however, that at the request of the DDEC Secretary, the Department of Agriculture shall submit such reports and statements as the DDEC deems necessary, including reports or statements of closure as provided in this Article.
Article 5010.01(f)-9. - Return on Investment (ROI) Assessment.

(a) The term Return on Investment as set forth in Section 1000.03 (a) of the Code refers to the relationship between the Economic Incentive Benefit and the Economic Incentive Cost resulting from an Incentive Award under Section 5010.01 of the Code. This computation is illustrated in paragraph (3) of subsection (d) of this Article.

(b) The Economic Incentive Benefits to be considered shall be those set forth in paragraph (2) of subparagraph (e) of this Article.

(c) The Economic Incentive Costs to be considered shall be as set forth in paragraph (1) of subparagraph (e) of this Article.

(d) Calculation of ROI

(1) The Economic Incentive Cost will be reduced by the total Economic Incentive Benefits.

(A) The Contributive Benefits are listed in paragraph (2) of section (e) of this Article, and vary according to the applicable Economic Incentive.

(2) The result of the preceding paragraph shall be divided by the Economic Incentive Cost applicable to each Economic Incentive under Section 5010.01(d) of the Code, including Economic Incentives that are derived from the above special funds replaced by the Economic Incentive Fund.

(3) The following formulas summarize the calculation of paragraphs (1) and (2) above:

\[
ROI = \frac{Benefits - Costs}{Costs} \times 100\% 
\]

(4) Interpretation of the result:

<table>
<thead>
<tr>
<th>ROI</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>&gt; 0%</td>
<td>The application has a positive return and the income to the Government of Puerto Rico exceeds the costs incurred.</td>
</tr>
<tr>
<td>= 0%</td>
<td>The application generates enough income to cover costs.</td>
</tr>
</tbody>
</table>
Factors applicable to the calculation of the ROI

(A) For purposes of calculating the factors that make up each Economic Incentive Benefit, the percentages or amounts established by the DDEC Secretary shall be used.

(B) These factors, along with their respective percentages or amounts, shall be published every three years by the DDEC Secretary through an administrative determination, circular letter or newsletter.

(e) Costs and Benefits applicable to the calculation of the ROI in the applications of Economic Incentives

(1) Cost of the Economic Incentive:

(A) For purposes of calculating the ROI, the Economic Incentive Cost shall be the total Economic Incentive granted under Section 5010.01 of the Code, including Economic Incentives from the special funds above replaced by the Economic Incentive Fund.

(2) Benefits of the Economic Incentive:

(A) For purposes of calculating the ROI, the Economic Incentive Benefit will be as follows:

(i) Strategic Projects. - Reserved.

(ii) Student Loan Repayment Program to Doctors or Dentists. - Reserved.

(iii) Qualified Promoter. - Reserved.

(iv) Incentives for Agricultural Research. - Reserved.

(v) Youth Programs, Student Internships, Entrepreneurship and First Youth Employment Experiences. - Reserved.

(vi) Programs for the Elderly. - Reserved.

(vii) Support to the Small and Medium Entrepreneur through the Preferential Income program. - Reserved.

(viii) Business Incubator Program. - Reserved.

(ix) Incentive for the Cruise Ship Industry of Puerto Rico. - Reserved.

(x) Establishment of the Agricultural Workers' Wage Subsidy Program. - Reserved.

(xi) Annual Bonus to Agricultural Workers. - Reserved.

(xii) Incentive for the Development of the Film Industry in Puerto Rico. --
Taxes paid on direct, indirect and induced jobs created by the construction of new hotels;
Sales and use tax paid on construction employee consumption;
Tax benefit on the consumption of non-resident visitors
Tax benefit on economic activity from the consumption of non-residents
Taxes paid on direct, indirect and induced wages in the hotel industry; and
Current tax paid on room taxes ("room tax")

(iii) Incentives for the Creative Industries –
Taxes paid on direct, indirect and induced jobs created in the total development of the Creative Industry project;
Sales and use tax paid on the total development of the Creative Industry project;
Tax benefit on the consumption of the total investment of the Creative Industry project;
Tax benefit on economic activity of the total investment of the Creative Industry project;
Taxes paid on direct, indirect and induced salaries in the Creative Industry Project; and
Current tax paid on room taxes.

(iv) Export of Goods and Services. –
Taxes on direct employment;
Taxes on indirect and induced employment;
Sales and use tax paid on consumption;
Company income taxes; and
Contribution on taxes, patents and CRIM.

(v) Green Energy Fund. –
Taxes on direct employment;
Taxes on indirect and induced employment;
Sales and use tax paid on employment consumption;
Energy saving consumption taxes; and
Benefits of economic activity through investment in infrastructure and local purchases.

(vi) Economic Incentives under Special Funds replaced by the Economic Incentive Fund. - Reserved.
(f) It is provided that the DDEC Secretary may grant the Economic Incentive in cases where the result of this calculation is less than zero, if in doing so it advances the best interests of the people of Puerto Rico and the purposes of the Code and these Regulations are advanced.

**Article 5010.01(f)-10. - General Provisions.**

(a) The DDEC Secretary and/or the Director, or his designated officer, may verify that the Grantee receiving FIE monies complies with the terms and conditions of the Incentive Contract. It is provided that the following actions or omissions shall be considered faults for these purposes:

1. Providing false information in the Incentive Proposal or at any other time during the term of the Incentive Contract or in the Closing Report;
2. Failure to keep updated and correctly informed files and documents that justify the disbursements made by the DDEC under the FIE;
3. Misuse the Economic Incentive or fail to comply with the provisions contained in these Regulations. For these purposes, misuse of the Economic Incentive will be deemed to have occurred when it is used for purposes not authorized in the Incentive Contract. If it is determined that a violation of the Code, these Rules and/or the Incentive Agreement has been committed, the DDEC Secretary may immediately revoke the award of the Economic Incentive, order the return of all amounts disbursed to the Eligible Bidder, or both, in its sole discretion.

(b) The DDEC Secretary and/or the Director, or his designated officer, may order the audit(s) of the handling of the FIE monies received by any Licensee, as provided in Article 5010.01(f)-8 of these Regulations.

(c) The DDEC Secretary and/or the Director may terminate any contract granted under these Regulations, and initiate the corresponding action to recover the money disbursed, when the Licensee does not comply with the terms and conditions of the Incentive Contract or the requirements of law and/or these Regulations, even in cases where an audit has not been conducted.

(d) The DDEC will maintain the available balances of the FIE monies and the breakdown of the amounts granted and committed.

**Article 5010.01(g)-1. - Reports.**

(a) Annually, the DDEC Secretary shall include the detail of the benefits granted under the FIE in the Incentive Report.

(b) The Director, or his designated officer, shall submit quarterly reports of the available FIE balance sheets, and the breakdown of the amounts granted and committed during the quarter to the DDEC Secretary.
Article 5010.01(i)-1. - Incentive Fund as Successor Fund.

(a) The Economic Incentive Fund will be the successor to the following Special Funds:

(1) The Special Economic Development Fund ("FEDE") created by Law 73-2008, as amended;

(2) The Special Fund for the Development of Service Exports and Promotion created by Law 20-2012, as amended;

(3) The Special Fund for the Development of the Film Industry created by Law 171-2014, as amended;

(4) The Special Fund under the "Economic Incentives Law for the Film Industry of Puerto Rico" for the Training of the Local Film Industry created by Law 27-2011, as amended;

(5) The Puerto Rico Green Energy Fund created by Law 83-2010;

(6) Industrial Incentive Program Funds under the provisions of Section 21 of Act No. 188 of May 11, 1942, as amended, and Act 203-1997, as amended;

(7) Funds transferred to the Compañía de Fomento Industrial for the Puerto Rico Rum Program established by Law 108-2014;

(8) The Fund for the Promotion of Employment and Economic Activity established by Law 73-2014, as amended;

(1) The Entrepreneurship Fund established by Law 73-2014, as amended;

(2) The Tourism Company Fund for Incentives to the Cruise Ship Industry created by Law 113-2011, as amended.

(b) Once these Regulations become effective, it is established that all applications for incentives under the provisions of the laws mentioned in paragraph (a) of this Article, shall be governed by the procedures established in Articles 5010.01(f)-2, 5010.01(f)-3, 5010.01(f)-5, 5010.01(f)-6, 5010.01(f)-7, 5010.01(f)-8, and 5010.01(f)-9 of this Chapter, even if they arise from any of the laws referred to in such paragraph. It is provided that the following platforms, programs and/or projects and their commitments shall be consolidated in or transferred to the FIE, once these Regulations become effective:

(1) Green Energy Incentives, formerly known as "Green Energy Funds" incentives;

(2) Incentives for Employment, Equipment and Machinery, Infrastructure, Initiatives, Incentive Allocations pending contracts and Incentive Contracts in force under the FEDE, as well as Professional Services contracts previously regulated in the "Regulations for the Administration of the Special Fund for Economic Development", MO-DNE-002..;

(3) Incentives granted for Basic Employment, Employment Location, Machinery and Equipment, Infrastructure, Project Importance, Vieques and Culebra, Handicrafts, Furniture and Textiles, Marketing, Foreign Transportation and
Community Enterprises under Regulation MO-DNE-008, "Regulations for the Administration of Incentives of the Industrial Development Company of Puerto Rico".

(4) Allocations to carry out the implementation of the following programs or initiatives
   (A) Juvempleo;
   (B) Craft Incentive Program;
   (C) Master Entrepreneurship Program;
   (D) Local Exportable Franchises;
   (E) Support to Microenterprises and Small and Medium Businesses;
   (F) PR Entrepreneurship;
   (G) PR Undertake with me;
   (H) Program to promote the Creative Industries;
   (I) Economic Incentive for Community Microenterprises;
   (J) Innovative SME Program;
   (K) Program to Rehabilitate Hydroponic Production in Puerto Rico;
   (L) National Emergency Equipping Program

(1) Assignment for the Rum Program which will be transferred to the Compañía de Fomento Industrial for the management and operation of the Program. This allocation will be up to a maximum of ten million dollars ($10,000,000) per fiscal year;
   (A) Operational or Sponsorship allocations to initiatives, non-profit entities or entities created by law for the implementation of initiatives that serve particular purposes in conjunction with the private sector, such as the Science, Technology and Research Trust of Puerto Rico, Roosevelt Roads Development.

(2) Any other program, initiative, entity or platform to be promoted using FIE funds as determined by the DDEC Secretary.
Article 5010.01(j)-1. - Allocation of funds to the FIE as the Successor Fund.

(a) The DDEC Secretary shall allocate funds available or due from the Department of Finance to any of the Special Funds referred to in paragraph (a) of Section 5010.01(i)-1, as such funds are created, provided that they shall not be used for other purposes until the law creating such fund becomes inapplicable.

Article 5010.01(k)-1. - Use and Purposes of the FIE.

(a) The money from the FIE will be used in the following way:

(1) The Director shall recommend annually to the DDEC Secretary, an allocation of FIE funds in favor of the Incentive Office, for the amount corresponding to the administrative expenses related to the management of the Incentive Office. These funds shall never exceed seven percent (7%) of the allocation provided for each Fiscal Year and shall be administered by the Finance area of the Incentive Office.

(2) The amount that enters the FIE from New Businesses will be allocated annually to Invest PR in accordance with the provisions of Law 13-2017, as amended.

(3) The remaining FIE monies may be used for the granting of incentives to the Programs included in these Regulations using the criteria established in this Chapter. To the extent that the FIE monies are sufficient and/or exceed the amount of incentives requested, the DDEC Secretary and/or the Director may create additional incentive programs, provided that they are in the best interest of Puerto Rico and are consistent with the objectives of the Code and these Regulations.

Article 5010.02(a)-1. - Incentive for the Development of the Film Industry of Puerto Rico.

(a) The evaluation of Incentive Proposals under Section 5010.02 of the Code shall be based on the following criteria:

(1) Proposals for Incentives that promote and increase the production of Puerto Rican Cinema; providing that, for these purposes the term is defined as the set of activities related to Film Projects whose management, film crew and artists are mainly domestic and for which eighty percent (80%) of the Production Costs are for Residents of Puerto Rico;

(2) The creation of direct and indirect jobs, especially direct jobs, related to the film industry;

(3) The use of artists and production equipment that are Individual Residents of Puerto Rico;

(4) Film projects that promote Puerto Rican culture;

(5) Ability to export Film Projects;
Any other criteria that the DDEC Secretary deems appropriate for these purposes.

Article 5010.03(a)-1. - Incentives for the Creative Industries.

(a) The evaluation of Incentive Proposals under Section 5010.03 of the Code shall be based on the following criteria:

1. Incentive proposals that promote and increase the production and development of the Creative Industries in Puerto Rico;
2. The creation of direct and indirect jobs, especially direct jobs, related to the Creative Industries;
3. The use of artists and developers who are Individual Residents of Puerto Rico;
4. Export capacity;
5. Any other criteria that the DDEC Secretary deems appropriate for these purposes.

SUBTITLE F. - ADMINISTRATIVE PROVISIONS

CHAPTER 1. - GENERAL PROVISIONS

Article 6011.03(b)-1. - Application for Incentive Grants.

(a) The Incentive Office will administer the Portal to facilitate the electronic filing and processing of incentive award applications and related documents, so as to expedite the evaluation of applications and processes in general. The Portal will have the following functions:

1. Maintain a public database. - The information provided by the applicant, as well as formal comments provided by the government entities, will be available in the Incentive Office database from the time of filing so that both the applicant and the government entities can have access to the information exchanged through the Portal.

2. Creation of a profile for each Eligible Business applicant or Grantee that includes all information necessary to process the application or renewal, history and type of incentive requested and any other information that the DDEC Secretary determines to be appropriate under these Regulations.

3. Automated and interactive orientation tool for the general public with information on the application process, necessary evaluation information, types of incentives available, among others.
(4) Facilitates the exchange of information between the Incentive Bureau and other agencies; and

(5) Provides data for periodic review of performance indicators for each Dealer, incentive or industry.

**Article 6011.03(b)(5)-1. - Facilitate the exchange of information between the Incentive Bureau and other agencies of the Government of Puerto Rico.**

(a) In compliance with Section 6011.03(b)(5) of the Code, Agencies and municipalities shall submit to the DDEC Secretary, through the Portal, the information set forth below, as applicable:
<table>
<thead>
<tr>
<th>Required information</th>
<th>Incen6ve Offi6ce</th>
<th>Develo6ment Co6mpany</th>
<th>Mu6nicipali6ties</th>
<th>Planni6ng Bo6ard</th>
<th>Treasu6ry De6partment</th>
<th>CR IM</th>
<th>Ot6er age6nci6s</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Number of applications submitted, approved and denied</td>
<td>X</td>
<td>X</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. Type of business</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. Classification of industrial activity</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. Location of businesses whose exemption was approved that year</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5. Total investment in machinery and equipment</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6. Total investment in employment and payroll projected by the Exempt Business</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7. Description of any additional incentives the Exempt Business receives from either local or municipal government funds</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>8. Municipal tax payments</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>9. The total assets, liabilities and capital of the Exempt Business</td>
<td>X</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>10. Contributions paid by Exempt Businesses for income, royalties and other</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>11. The use of benefits, such as tax credits and special deductions</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>12. The comparison of the commitments made by the Exempt Businesses in relation to the level of employment and other conditions established by decree</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>13. Any other information that may be necessary to inform the Governor and the Legislative Assembly of the scope and effects of the implementation of the Code</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
</tbody>
</table>
(b) Agencies and municipalities shall submit three (3) partial reports to be delivered as provided below:

1. The first progress report shall correspond to the period of time covering the first six (6) months of the Fiscal Year. It must be submitted on or before January 31 of the corresponding Fiscal Year.
2. The second progress report shall correspond to the three (3) months following the first progress report. This report must be submitted on or before April 31st of the corresponding Fiscal Year.
3. The third progress report will correspond to the last three (3) months that complete the Fiscal Year. It shall be submitted no later than thirty (30) days after the close of the corresponding Fiscal Year.

(c) On or before thirty (30) days after the close of each Fiscal Year the municipalities and agencies concerned shall have completed and submitted to the DDEC Secretary the information related to the previous Fiscal Year.

(d) No later than August 31, the head of the Agency, its chief executive or the mayor of the corresponding municipality, shall submit to the DDEC Secretary a certification attesting to compliance with the provisions of the Code and these Regulations.

(e) Presentation format. - The required information must be submitted in an electronic version and in the format established by the DDEC. It must be sent to the DDEC through the Portal.

**Article 6011.03(b)(5)-1. - Liaison Officer.**

(a) The Puerto Rico Industrial Development Company, Municipalities, Planning Board, the Department of Treasury, the CRIM and any other agency involved in the process of evaluating applications for concessions, will designate a public official who will be in charge of communication between your agency or municipality and the DDEC (the "Liaison Officer").

(b) These agencies and municipalities shall, within thirty (30) days of the approval of these Regulations, notify the name and information regarding the designated Liaison Officer.

(c) In turn, the DDEC Secretary shall designate, within the same term, a Liaison Officer who shall be responsible for interagency communication related to the information to be sent by the Agencies and the municipalities and any other relevant matters, as the DDEC Secretary may determine.

(d) The Agency and Municipality Liaison Officer shall be responsible for collecting the information, producing it in the format required by these Regulations and forwarding it to the DDEC Secretary, with the prior consent of the head or executive director of his agency or the mayor of the municipality.
The name, telephone number and e-mail address of the DDEC’s liaison officer will be posted on the Portal.

CHAPTER 2. - PROVISIONS APPLICABLE TO SUBTITLE B

Article 6020.01(b)-1. - Application for Granting of Incentives.

(a) **Presentation.** - The application for Incentive Awards shall be submitted using the Portal in accordance with Section 6011.01 of the Code.

Article 6020.01(b)(2)-1. Information and Documentation to be Included with the Decree Application.

(a) All applications for a Decree under Chapters 3 through 11 of Subtitle B of the Code shall include, in addition to any other information or documentation set forth in the specific implementing provisions of these Regulations, the following:

1) Eligible Business Information when you are a natural person

   (A) Legal name;
   (B) Social security number or full national identification number, as applicable;
   (C) Physical and postal address;
   (D) Marital status;
   (E) Country of residence;
   (F) Phone number;
   (G) Detailed description of the services or eligible activity and corresponding NAICS numbers;
   (H) Estimate of the financial information of the eligible activities in the following three (3) years to the date of the application of the Decree:
      (i) Total income;
      (ii) Total expenses;
      (iii) Net income;
      (iv) Contribution on income;
      (v) Annual payroll.

2) Eligible Business Information:

   (A) Legal name;
   (B) Employer identification number;
   (C) Type of organization;
   (D) Taxation method;
(E) Years in operation;
(F) Eligible Business registration number with the Department of State;
(G) Date of registration of the Eligible Business with the Department of State
(H) Country where the Eligible Business is located;
(I) Country and state, as applicable, where the Eligible Business was organized;
(J) Country, state and city, as applicable, where the Eligible Business provided the services prior to relocating to Puerto Rico;
(K) Postal and physical address;
(L) Detailed description of the services or eligible activity and corresponding NAICS numbers;
(M) In the case of applications under Chapters 3 and 6 of Subtitle B of the Code, the Base Period Entry, as set forth in Sections 2032.01(c) and 2062.01(g) of the Code, respectively.
(N) Shareholders, partners or members information:
   (i) Name;
   (ii) Social security number or complete national identification, as applicable;
   (iii) Date and place of birth;
   (iv) Physical and postal address;
   (v) Percentage of participation in the Eligible Business;
   (vi) Certificate of criminal record.
(O) Information on shareholders who are an Entity, if applicable:
   (i) Legal name;
   (ii) Place of incorporation or organization.
(P) Information on jobs to be created in the next three (3) years from the date of application of the Decree, and in the year in which the Decree is applied for, segregated by
   (i) Number of full-time employees in eligible activities and employee payroll expense;
   (ii) Number of employees in ineligible activities and employee payroll expense;
   (iii) Number of employees in management, technical and clerical positions.
(Q) Information about the Investment Capital and how it will be distributed:
   (i) Initial investment amount, if applicable;
   (ii) Start date of the capital investment;
   (iii) Date on which the capital investment will be completed.
(R) Estimate of the Financial Information of the Eligible Business in the following three (3) years as of the date of application of the Decree:

(i) Total income;
(ii) Total expenses;
(iii) Contribution on income;
(iv) Annual payroll.

(S) Estimate of Financial Information for the ineligible activities of the Eligible Business in the following three (3) years as of the date of the Ordinance application:

(i) Total income;
(ii) Total expenses;
(iii) Net income;
(iv) Contribution on income;
(v) Annual payroll.

(T) Estimate of the equipment and machinery to be used by the Eligible Business and the date the investment in the equipment and machinery will be made;

(U) Estimate of the total of products to be manufactured or services to be provided in the three (3) following the year in which the Decree was requested;

(3) Required documents:

(A) One (1) letter of recommendation from the Eligible Business of an Entity with whom you have conducted business, which may be a bank with which you have a business relationship;

(B) Certificate of criminal record of the shareholders, partners or members in the case of entities whose shares are not listed on public markets;

(C) Summary of shareholders, partners or members in the case of Entities whose Shares are not listed on public markets;

(D) Evidence of the Employer Identification Number of the Eligible Business

(E) Organization chart of the operational structure of the Entity;

(F) Copy of the Certificate of Registration or Certificate of Authorization to do Business in Puerto Rico, issued by the Department of State.

(4) Additional documents in the case of an Eligible Business whose existence or operation has been greater than one Tax Year at the time of application:

(A) One (1) commercial reference to the Incentive Director;

(B) Financial statements corresponding to the last three (3) Taxable Years, providing that, if the gross income for a particular Taxable Year exceeds three million dollars ($3,000,000), the financial statements must be
certified by a Certified Public Accountant, authorized to practice the profession in Puerto Rico;

(C) Certification of Compliance ("Good Standing"), issued by the Department of State;

(D) Certification of Filing of Income Tax Returns, issued by the Treasury Department for the last five (5) years to the Eligible Business and to each of its shareholders, partners or members, direct and indirect in the case of entities whose Shares are not listed on public markets. In the case of shareholders, partners or members that are natural persons, and these were not required to file Income Tax Forms, the Eligible Business must submit Form SC-2781 or its equivalent issued by the Treasury Department;

(E) Negative Debt Certification, issued by the Treasury Department to the Eligible Business and each of its shareholders, partners or members. If the Eligible Business or any of its shareholders, partners, or members, directly or indirectly, owe a debt to the Treasury Department, it must provide evidence that it has a payment plan, administrative review, or balance of the debt;

(F) Certification of Debt for All Concepts issued by the Municipal Revenue Collection Center ("CRIM");

(G) Social Security Debt Certification Driver, issued by the Department of Labor of Puerto Rico;

(H) Negative Debt Certification issued by the Puerto Rico State Insurance Fund Corporation;

(I) Certification of Debt for Unemployment and Disability Insurance, issued by the Puerto Rico Department of Labor.

Article 6020.01(b)(2)-2. - Additional Information for Applications for Decree under Chapter 2 of Subtitle B.

(a) All applications for a Decree under Chapter 2 of Subtitle B of the Code shall include, in addition to any other information or documentation set forth in Section 6020.01(b)(2)-3 of these Regulations, the following

(b) Personal information:
   (1) Name;
   (2) Gender;
   (3) E-mail;
   (4) Cell phone and work phone;
   (5) Facsimile number;
   (6) Physical and postal address;
(7) Nationality and full social security number, if applicable;
(8) Date and place of birth;
(9) Citizenship;
(10) Marital status;
(11) Name of spouse, if applicable;
(12) Nationality and full social security number of spouse, if applicable;
(13) Spouse's e-mail address;
(14) Number of children, if applicable;
(15) Age of children, if applicable.

(c) Financial Information
(1) Net annual income;
(2) Source of income;
(3) Profession;
(4) Capital estimate;
(5) Current distribution of the capital estimate by type of asset;
(6) Estimated capital you will be transferring to Puerto Rico, if any;
(7) Other investments to be made in Puerto Rico, if any.

(d) If you have Entities:
(1) Name of the Entity;
(2) Employer identification number;
(3) Relationship with Entity;
(4) Industry;
(5) E-mail;
(6) Website;
(7) Number of full time employees;
(8) Estimated annual payroll;
(9) Location of the main office.

(e) Required documents:
(1) Certificate of criminal record;
(2) Copy of the social security number card, or national identification number, as the case may be;
(3) It summarizes;
(4) Copy of the passport or national identification number, as the case may be;
(5) Certification of Filing of Income Tax Returns, issued by the Treasury Department for the last five (5) years. In the case of a natural person, if he was not obliged to file Income Tax Forms, please submit Form SC-2781 or its equivalent issued by the Department of Treasury;
(6) Negative Debt Certification, issued by the Treasury Department. If you have a
debt with the Treasury Department, you must provide evidence of the payment
plan, administrative review or balance of the debt.

**Article 6020.01(b)(2)-3. - Additional Information and Documentation to be Included by
an Eligible Business Requesting a Decree under Subtitle B.**

(a) Individual Investor:
   (1) Personal information:
       (A) of the years of residence excluded in Section 1020.02(a)(4) of the Code.
   (2) Financial information:
       (A) Information about the property where you will be residing in Puerto
            Rico, you must indicate if you own the property or the rent;
       (B) Monthly residential mortgage payment or residential property rent.

(b) Qualified Physician:
   (1) Certificate of qualified physician issued by the Department of Health;

(c) Scientists and Researchers:
   (1) Evidence of service contract as a Scientist or Researcher. For these purposes
       you may submit a copy of the professional services contract or employment
       contract issued by the University of Puerto Rico or other authorized Higher
       Education Institution in Puerto Rico;
   (2) Negative Debt Certification issued by the Administration for the Support of
       Minors (ASUME)
   (3) You must provide the documentation or additional information set forth in
       Chapter 2 of Subtitle B of these Regulations.

(d) Difficult to Recruit Professional:
   (1) You must provide the documentation or additional information set forth in
       Chapter 2 of Subtitle B of these Regulations.

(e) Finance, Investments and Insurance:
   (1) Required Documents:
       (A) Copy of licenses required to operate issued by OCFI or the Office of the
           Commissioner of Insurance of Puerto Rico
       (B) Copy of permits required to operate, as the case may be.

(f) Visitor Economy:
   (1) General Provisions:
       (A) Required information:
           (i) Name of the administrator (manager);
           (ii) Total cost of the Tourism Project, if applicable;
           (iii) Eligible Tourism Investment Estimate;
           (iv) Physical description of the Tourism Project;
(v) Description of the services available;
(vi) Location of the Lodging;
(vii) Accommodation capacity;
(viii) Inventory of all movable and immovable property proposed to be used or used in the Eligible Business with the estimated cost of the property;
(ix) Number of permanent full-time direct jobs with appropriate job classification;
(x) Number of partial jobs and job classification;
(xi) Projects involving rentals or mixed use should include the distribution of the property (number of rooms or percentage applicable), for the activities.

(B) Required Documents:

(i) Permit endorsement by the Tourism Office;
(ii) Certification of Catering Registration granted by the Tourism Office;
(iii) Operational Endorsement granted by the Tourism Office;
(iv) Copy of building permits, if applicable;
(v) Copy of the construction or development contract with the general contractor of the work, if applicable;
(vi) When the applicant is a conduit entity, a copy of the election approval;
(vii) When the applicant is a trading company, a copy of the Certification of the Registrar of the Property to evaluate if it is registered in the Trade Register;
(viii) When the applicant is a special society, a copy of the approval of the Special Society election;
(ix) Where the applicant is a limited liability corporation that has elected to be taxed as a partnership, a copy of the election approval;
(x) In the case of a New Tourism Business, the unaudited financial statements of the shareholder, partner or principal member; For purposes of this sub-item, a "shareholder, partner or principal member" shall mean any person who, by itself, or in conjunction with any other person who is affiliated with, is owned by or controlled directly or indirectly by the shareholder, partner or principal member, owns ten percent (10%) or more of the Shares of the Eligible Business.
(xi) Use, construction, or location permits depending on the stage you are in;
(xii) Alcoholic beverage license;
(xiii) Health Department license;
(xiv) Municipal patent;
(xv) Inspection certificate of the Puerto Rico Fire Department;
(xvi) The plans of the plant or Tourism Project with a detailed breakdown of the facilities;
(xvii) Certificate of public liability insurance issued by an agency certified by the Office of the Insurance Commissioner of Puerto Rico;
(xviii) If the Eligible Business does not have any of the documents listed, it must accompany the application with an affidavit stating the reasons why it is not available and an affirmation that the documents will be submitted at a later date.

(2) Condo Hotel:

(A) Required information:
   (i) Identify the horizontal property regimes or regimes under the Puerto Rico Condo Hotel Law that are included in the Condo Hotel Program, as well as all the units that are part of it;
   (ii) In the case of an investor acquiring one or more units of a Condo Hotel, the following must be informed: Master Decree case number and identify the Units;

(B) Required Documents:
   (i) Deed of the horizontal property regime, if applicable;
   (ii) By-laws ("by-laws") of the condominium association, if applicable;
   (iii) Affidavit stating the following:
      (1) Date of construction that was or will be completed
      (2) Units that have not been or will be used for other purposes;
      (3) Units that were or will be acquired from the Person who built or developed the Condo Hotel;
   (iv) In the case of an investor acquiring one or more units of a Condo Hotel, the following documentation must be submitted:
      (1) Lease contract with the operator of the Condo Hotel;
      (2) Deed of sale;
      (3) Deed of incorporation of any mortgage that has been constituted on the unit;
      (4) Pricing of the unit;
(5) "Settlement statement from the mortgage bank or the unit that was purchased in cash;

(6) Affidavit from the unit seller to establish that the unit was purchased for cash.

(3) Boats:
   (A) Required information:
       (i) Master Decree case number;
       (ii) Identify the particular boat;
   (B) Required Documents:
       (i) Lease agreement with the Boat program operator;
       (ii) Title to the vessel or evidence of the financing of the vessel.

(4) Tourist Marina and Nautical Tourism:
   (A) Required Documents:
       (i) Evidence of the facilities or boats, as the case may be;

(g) Manufacturing and Infrastructure:
   (1) Required information:
       (A) List of suppliers of materials and services;
       (B) Estimate of the cost of materials or services;
       (C) List of the Eligible Business' real estate properties and the date the investment in such real estate will be made, if applicable;
       (D) Estimate of subcontracted services in the three (3) following years in which the Decree was requested;
       (E) Detailed description of the Manufacturing Process including if it contemplates subcontracting in any part of the process.
   (2) Required Documents:
       (A) Annual report of employees.

(h) Infrastructure and Green Energy
   (1) Required Documents:
       (A) For purposes of the benefit of the historical zones, Certification of the Institute of Puerto Rican Culture must be included.
       (B) Any Application for a Decree under Sections 2073.03(a)-1A and 2073.07(a)-1A shall include, in addition to any other information or documentation set forth in the specific implementing provisions of these Regulations, the following documents:
           (i) Evidence of application for Certification of Eligibility from the Housing Department or copy of the Certification of Eligibility issued by the Housing Department;
           (ii) The projected rent to be charged per housing unit;
For purposes of the application under Article 2073.07(a)-1A, the Eligible Business shall submit a cost estimate with a breakdown by expense item approved by the DDEC Secretary prior to the commencement of construction or rehabilitation work.

All applications for a Decree under Section 2073.05(a)-1A must contain the Certification of Eligibility issued by the Secretary of Housing.

(i) Agrobusinesses:
   (1) Required information:
       (A) List of suppliers of materials and services;
       (B) Estimate of the cost of materials or services;
       (C) Estimate of the equipment and machinery to be used by the Eligible Business and the date the investment in such equipment and machinery will be made;
       (D) Estimate of the total cost per agricultural product to be harvested in the three (3) following the year in which the Decree was requested.

   (2) Required Documents:
       (A) Bona Fide Farmer's Certificate.

(j) Entrepreneurship:
   (1) You must provide the additional documentation or information set forth in Section 2025.01 of the Code.

(k) Other Incentives:
   (1) License or permit issued by the Federal Aviation Administration, Port Authority, Department of Revenue or any other state or federal agency responsible for the authorization of the Ocean Carrier or Air Carrier.

The DDEC Secretary may request the Eligible Business to submit such additional information and/or documentation as he deems necessary to evaluate and justify the requested incentive award.

Article 6020.01(b)(2)-4. Granting of Endorsement and Application for Revenue applicable to the Visitor's Economy.

(a) Tourism Office will issue endorsements or certifications for purposes of Catering Registration, Permits and Operation.

(b) Permit endorsements will be granted in the different phases of development of the Lodge: conceptual, construction or use, in compliance with the requirements of these Regulations. A Lodge may be located in any area or district authorized in the regulations of the corresponding permit office (state or municipal), and any other authority with inherent authority. It shall faithfully comply with the provisions of applicable laws, including, but not limited to:

   (1) Act No. 85-1956, as amended, known as the Hotel Act;
(2) Law No. 254-2006, as amended, known as the Public Policy Law for the Development of Sustainable Tourism in Puerto Rico;

(3) Act No. 272-2009, as amended, known as the Puerto Rico Commonwealth of Puerto Rico Occupancy Tax Act;

(4) The Americans with Disabilities Act of 1990, as amended, known as the ADA; and

(5) Any other successor or analogous law to those mentioned above, and any regulation or official documentation issued under its protection that regulates tourist activities or services.

(c) The Certification of Hotel Registration will be granted once the operation of all hotels or short-term accommodations has begun, as defined in these Regulations and authorized to do business in Puerto Rico. It will be registered in the Tax Division of the Tourism Office on a mandatory basis.

(d) The Operational Endorsement will be granted as part of an application for admission for inspection of an Inn or lodging, within thirty (30) days of beginning operations. The Tourism Office shall have full authority to inspect and monitor any Lodging and Accommodations. This will ensure that all Hospedaje maintains an adequate quality in the tourism industry. No Hospedería turística in Puerto Rico will be able to operate without the operational endorsement of the Tourism Office.

(e) The Lodge will maintain in force and visible all governmental and Tourism Office certifications, licenses, endorsements and permits authorized to operate, and will present evidence of them, as required.

(f) Inspection. - All the Lodgings and accommodations in operation will be inspected in a compulsory way and periodically, at least two (2) times a year (it could happen without previous notice), by the authorized Personnel of the Tourism Office, which will write a report, copy of which will be sent to the Lodging. The Tourism Office reserves the right to inspect a Hospice as many times as deemed necessary. Technical inspections and evaluations may include permit endorsements, operational endorsements, green lodge certification, and any other certification from the Sustainable Tourism Division of the Tourism Office. The Tourism Office may subcontract services for periodic inspections of physical plant, service and management and sustainability practices. The new Lodging must obtain a minimum percentage of ninety percent (90%) compliance in the initial inspection, in a scale of one hundred percent (100%). Then, at subsequent inspections, it shall maintain a minimum compliance level of eighty-five percent (85%). The compliant Lodges will be "promotionally endorsed" by the Tourism Office. The promotional endorsement granted may not be transferred to future owners of the property.

(g) Notification. - The decision regarding the application for endorsement or entry into the promotional program of the Tourism Office will be notified in writing.
(h) **Denial.** - In case a denial to the request is notified, the owner or manager will be able to request a reconsideration to the Tourism Office, following the parameters established by this one for regulation, administrative decree, circular letter, informative bulletin or any other official communication of general character.

(i) **Remedial action.** - Any Lodge that does not comply with some of the physical and operational requirements of these Regulations, including fiscal responsibility with the Tourism Office and with public instruments, the availability of permits and licenses in force, and with any requirement, document or information that the Tourism Office requests, will have a period of compliance between thirty (30) to ninety (90) calendar days, this includes complying with the remedial actions as established in the corrective plan that the Tourism Office presents to the Lodge to achieve compliance. In the case of businesses with fewer than fifteen (15) employees, the Tourist Board, exercising its discretion, may grant an additional term to comply with the remedial plan. This will be evaluated on a case-by-case basis. In the event that a substantial capital investment is required, the Tourism Board may extend an additional extension up to a maximum of one hundred and eighty (180) calendar days.

(j) **Exclusion and suspension.** - If at the end of the term (30 to 90 calendar days) the Lodge has not demonstrated compliance with the above requirements, the Tourism Office will initiate a process of exclusion and suspension of the Lodge, which may involve the withdrawal of all endorsements granted, the intervention of the agencies concerned for the possible withdrawal of the granting of permits and licenses as well as the withdrawal of any financial or promotional incentive of the Tourism Office. The Tourism Office retains the right and obligation to continue to inspect the Lodge.

(k) **Reconsideration.** - In the event of an adverse determination, the Lodge may file a written reconsideration with the Tourism Office, beginning ten (10) calendar days after being notified of the exclusion.

(l) **Fines.** - The Tourism Office may carry out the process of suspension or impose fines of up to five thousand dollars ($5,000) per infraction, after an informal hearing conducted by the authorized representative of the Tourism Office. The Tourism Office will establish the procedure for fines in an administrative manner.

**Article 6020.01(b)(2)-5 Security Measures Applicable to Visitor's Economy**

(a) The Lodgings will comply with the following security measures:

1. The Puerto Rico Fire Department will be responsible for making a periodic and routine visit to the Lodgings, as well as an eviction plan in case of emergency. A copy of the inspection and its documents will be sent to the Tourism Office within five (5) days after receiving the report from the agency. They will have fully charged fire extinguishers in accordance with current Fire Department regulations in the corridors, or automatic sprinklers in the rooms,
restaurants, kitchens, meeting rooms, cocktail lounges, gyms, gambling halls and casinos. Exhaust exits and the location of fire extinguishers shall be duly identified.

They will write and maintain a manual or protocol to address emergency situations in all areas of the Lodge (including pools, if applicable). A copy of this emergency protocol will be maintained in the reception area and a copy will be sent to the Emergency Management Office of the municipality where the Lodgings are located. The protocol will be submitted to the State Agency for Emergency Management and Disaster Administration ("AEMEAD") as an "emergency plan" for approval. This document shall address the following situations:

(A) Guest Medical Emergency;
(B) Crime against Person or property, including any act of domestic or gender violence against a Guest or employee;
(C) Public disturbance;
(D) Hurricane or Tropical Storm Warning;
(E) Earthquake;
(F) Flooding (only for those Lodgings that are within a flood zone, as determined by official flood maps from the AEMEAD and the Federal Emergency Management Agency or FEMA);
(G) Tsunami, only for those Lodgings that are within a risk zone according to AEMEAD and FEMA. Information will be provided to Guests about evacuation routes in the event of a tsunami;

(i) You must present evidence of emergency drills conducted with Lodgings Staff.
(ii) They will train their employees to recognize and report any activity, Person or object that may threaten the safety of the Guests.
(iii) They will notify their Guests of closing hours and provide an alternate communication system with which the Guest can communicate, should a need or emergency arise.
(iv) They will provide locks or interior latches on the entrance and exit doors of the rooms, on doors that communicate with each other, and on those that connect with terraces or balconies. They will place a magic eye, a chain or any other device of similar nature that guarantees the security of the Guests.
(v) They will identify all the rooms by a number or symbol that will appear on the outside of the entrance door.
(vi) The keys or equipment for the Guest’s entrance to the Room will identify only the Room or the Lodge, not both.

(b) **Facilities for people with disabilities**. - The Lodgings shall comply with state and federal law applicable to Persons with physical, emotional or mental disabilities. In addition, they will provide comparable services and facilities, such as: access, parking lots, rooms, restrooms, and public places free from architectural barriers or obstacles. Commercial tourist facilities will be governed by state and federal laws applicable to Persons with physical, emotional or mental disabilities, administered by the Office of the Attorney General for Persons with Disabilities. Residential uses will be governed by the regulations of the Puerto Rico Department of Housing.

**Article 6020.01(b)(3)-1 - Processing Fees.**

(a) At the time of submission, the DDEC Secretary will collect the fees for the corresponding procedure, which will be paid by electronic transfer at the Portal established by the Incentives Office.

(1) **Presentation rights.** - The Incentive Bureau will charge the following fees for each application submitted.

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<tr>
<th>Eligible Activity</th>
<th>Request Type</th>
<th>Incentive Code</th>
<th>Transaction Fee</th>
<th>Service Charge</th>
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<td>Subtitle B, Chapter 6, Section 2061.01(a)(5) / Section 1020.06(a)(8)(i)</td>
<td>$5.00</td>
<td>$1,000.00</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Eligible Activity</th>
<th>Request Type</th>
<th>Incentive Code</th>
<th>Transaction Fee</th>
<th>Service Charge</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manufacturing</td>
<td>Industrial Development Property - Machinery</td>
<td>Subtitle B, Chapter 6, Section 2061.01(a)(5) / Section 1020.06(a)(8)(ii)</td>
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<tr>
<td>Infrastructure and Green Energy</td>
<td>Construction and Development in Historical Areas</td>
<td>Subtitle B, Chapter 7, Section 2071.01(1)</td>
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<td>$1,000.00 of the Applicant to be a Promoter</td>
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<tr>
<td>Infrastructure and Green Energy</td>
<td>Construction and Development of Social Interest Homes, Senior Citizens or Assisted Living</td>
<td>Subtitle B, Chapter 7, Section 2071.01(2), (3), (4), and (5)</td>
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<td>Incentive Code</td>
<td>Transaction Fee</td>
<td>Service Charge</td>
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<tr>
<td>Agro-industries</td>
<td>Incentives for Agricultural Research</td>
<td>Subtitle B, Chapter 8, Section 2084.01</td>
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<td>Creative Industries</td>
<td>Concession for Puerto Rico Film Project</td>
<td>Subtitle B, Chapter 9, Section 2091.01(a)(1)</td>
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<tr>
<td>Creative Industries</td>
<td>Concession for Studio or Infrastructure Operator</td>
<td>Subtitle B, Chapter 9, Section 2091.01(a)(2), (3), (4)</td>
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<td>$1,000.00</td>
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<td>Eligible Activity</td>
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<td>Incentive Code</td>
<td>Transaction Fee</td>
<td>Service Charge</td>
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<tr>
<td>------------------</td>
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<tr>
<td>Creative Industries: Special Provisions</td>
<td>Creative Industries Development District Designation</td>
<td>Subtitle B, Chapter 9, Section 2094.01</td>
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<td>Entrepreneurship</td>
<td>Young Entrepreneurs</td>
<td>Subtitle B, Chapter 10, Section 2100.01</td>
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<td>Entrepreneurship</td>
<td>Preferential Income Program - SME</td>
<td>Subtitle B, Chapter 10, Section 2100.02</td>
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<td>Entrepreneurship</td>
<td>Business Incubators</td>
<td>Subtitle B, Chapter 10, Section 2100.03</td>
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<td>Other Industries</td>
<td>Public Carriers Engaged in Air Transportation Services</td>
<td>Subtitle B, Chapter 11, Section 2110.01</td>
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<td>Other Industries</td>
<td>Carriers Dedicated to Maritime Transportation Services</td>
<td>Subtitle B, Chapter 11, Section 2110.02</td>
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<td>Other Industries</td>
<td>Puerto Rico's Cruise Industry</td>
<td>Subtitle B, Chapter 11, Section 2110.03</td>
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<td>Contributive Credits</td>
<td>Eligible Tourism Investment Tax Credit</td>
<td>Subtitle C, Chapter 1, Section 3010.01</td>
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<td>Contributive Credits</td>
<td>Tax Credits for Entities Dedicated to Manufacturing</td>
<td>Subtitle C, Chapter 2, Section 3020.01</td>
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<td>Contributive Credits</td>
<td>Contributive Credit for Investment in Research and Development</td>
<td>Subtitle C, Chapter 3, Section 3030.01</td>
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<td>Contributive Credits</td>
<td>Creative Industries Tax Credit</td>
<td>Subtitle C, Chapter 5, Section 3050.01</td>
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<table>
<thead>
<tr>
<th>Economic Development Funds</th>
<th>Economic Incentive Fund</th>
<th>Subtitle E, Chapter 1, Section 5010.01</th>
<th>$5.00</th>
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<td>Economic Development Funds</td>
<td>Incentive for the Development of the Film Industry in Puerto Rico</td>
<td>Subtitle E, Chapter 1, Section 5010.02</td>
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<td>Economic Development Funds</td>
<td>Incentives for the Creative Industries</td>
<td>Subtitle E, Chapter 1, Section 5010.03</td>
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### General Requests

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<tr>
<th>Request Type</th>
<th>Transaction Fee</th>
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<tbody>
<tr>
<td>Flexible Tax Exemption Selection - Section 2011.05</td>
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<tr>
<td>Certified Professional Registration - Section 6020.01(f)(3)</td>
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</tr>
<tr>
<td>Renegotiation of Decree - Section 6020.03(b)</td>
<td>$5.00</td>
<td>$1,000.00</td>
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<tr>
<td>Extension of Decree - 6020.03(c)</td>
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<td>$1,000.00</td>
</tr>
<tr>
<td>Conversion of Executive Decree to the Incentive Code - Section 6020.04</td>
<td>$5.00</td>
<td>$500.00</td>
</tr>
<tr>
<td>Annual Report - Section 6020.10(a)(4)</td>
<td>$5.00</td>
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<tr>
<td>Annual Report - Exempt Business under Section 2021.01</td>
<td>$5.00</td>
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<tr>
<td>Reconsideration</td>
<td>$5.00</td>
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</tr>
<tr>
<td>Opposition</td>
<td>$5.00</td>
<td>$500.00</td>
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<tr>
<td>Request Type</td>
<td>Request Type</td>
<td>Request Type</td>
</tr>
<tr>
<td>--------------</td>
<td>--------------</td>
<td>--------------</td>
</tr>
<tr>
<td>Unconditional Acceptance of Decree/amendment</td>
<td>$5.00</td>
<td>$100.00</td>
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<tr>
<td>Notice of Commencement of Operations</td>
<td>$5.00</td>
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<td><strong>General Requests</strong></td>
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<tr>
<td>Notification Date of Residence</td>
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<td>$100.00</td>
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<tr>
<td>Amendment to Approved Decree</td>
<td>$5.00</td>
<td>$750.00</td>
</tr>
<tr>
<td>Transfer of Decree, Shares, Assets or Other Interest</td>
<td>$5.00</td>
<td>$750.00</td>
</tr>
<tr>
<td>Supplement to Executive Decree or Amendment Pending Approval*</td>
<td>$5.00</td>
<td>$100.00</td>
</tr>
</tbody>
</table>

*For the purposes of this box, a Supplement shall mean a modification that does not entail substantial changes in the application for a Decree or Amendment pending approval. This means: (i) a change in the name of the Eligible Business; (ii) a change in the address of the Eligible Business; and (iii) any other change that the Incentive Bureau considers does not substantially change the application for an Executive Decree or Amendment pending approval.

Amendment to Request for Decree or Amendment Pending Approval* | $5.00 | $300.00 |

*For the purposes of this box, an Amendment shall mean a modification that entails substantial changes in the application for a Decree or Amendment pending approval. This includes: (i) inclusion of Co-Investor; (ii) substitution of Eligible Business; (iii) modification in description of eligible activity, financial information, etc.; (iv) inclusion of new eligible activity; (v) modification in organizational structure of the Eligible Business; (vi) modification to the terms and conditions requested, including, but not limited to changes in employment, investment, production and/or any other requirements; (vii) modification of dates of commencement of operations, residence, etc. (viii) modifications of periods to comply with requirements and (ix) any other modification that the Incentive Bureau considers to entail a substantial change in the pending application for an Executive Decree or Amendment.

Certification of Compliance | $5.00 | $300.00 |
Every Eligible Business that files an application with the Incentive Bureau will pay through the Portal the established fee by credit card or bank transfer. The Incentive Bureau will not accept alternative methods of payment to those set forth herein, unless otherwise provided.

Payments of charges made to the Incentive Bureau are non-refundable.

The exclusion of any tax incentive application in these Regulations shall not exempt the Eligible Business from the payment of filing fees. The DDEC Secretary shall have the authority to establish the filing fees for the excluded incentive application, based on the fees applicable to similar applications, as set forth in these Regulations.

The Incentive Bureau will only accept applications with the corresponding fee and required documents. If this is not done, the application will not be considered submitted.

### Article 6020.01(c)(2)-1. - Evaluation of Applications.

(a) Within a period of five (5) days from the filing of the application for the granting of incentives, the Director of Incentives shall preliminarily review such application for the purpose of determining whether it complies with the initial requirements, identifying the type of incentive applicable, and distinguishing between an application under the ordinary or extraordinary procedure.

(b) If the submitted incentive application lacks any information or element necessary for its consideration, the applicant will be notified of such omission, no later than ten (10) days from the filing date.

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<table>
<thead>
<tr>
<th>General Requests</th>
<th>Request Type</th>
</tr>
</thead>
<tbody>
<tr>
<td>Procedure for which no filing fee has been set, except for the Tax Incentive Application</td>
<td>$5.00</td>
</tr>
<tr>
<td>*Please refer to sub-item 4 of this Article</td>
<td>$100.00</td>
</tr>
<tr>
<td>Incentive Office Clarification Decree for Omission or Inadvertence of Information Provided by Eligible Business</td>
<td>$5.00</td>
</tr>
<tr>
<td></td>
<td>$0.00</td>
</tr>
</tbody>
</table>
days after the application has been received, and will be granted a term of ten (10) days for the applicant to submit the information. If the Incentive Bureau does not receive the information requested in the notice of default within the time frame set forth in this paragraph, the case may be closed. The ten (10) day term may be extended at the request of the applicant, if there is a Just Cause.

**Article 6020.01(d)(1)-1. - Ordinary Procedure.**

(a) The ordinary procedure refers to those whose applications for incentive awards are submitted, evaluated and granted using standardized formats. Applications for the granting of incentives under the ordinary procedure shall not contain the following requirements, beyond those established in the Code or these Regulations

1. Minimum investment levels;
2. Minimum number of jobs;
3. Other conditions.

**Section 6020.01(d)(2)-1. - Regular Process Evaluation.**

(a) That application for the granting of incentives that qualifies for the regular process will be handled internally by the Incentives Office and will not require the consultation or endorsement of other agencies of the Government of Puerto Rico, except for the endorsement of the Secretary of the Treasury. The Incentive Office shall evaluate the application and issue a recommendation to the DDEC Secretary within a term not exceeding thirty (30) days, provided that the Eligible Business submits all the information and documentation as required in this Article, and the Incentive Office validates the credentials of the Eligible Business and/or its owners. In the event all information is not submitted or there is a deficiency in the information or documentation submitted, the thirty (30) day period will be interrupted until the Eligible Business recovers the deficiency in the application. The Eligible Business must cure the information deficiency within the term set forth in Section 6020.01(c)(2) of the Code. The term may be extended at the request of the Eligible Business, if there is Good Cause.

(b) The DDEC Secretary shall grant a period of ten (10) days for the Secretary of the Treasury to evaluate the application and make his recommendation regarding the case. If the Secretary of the Treasury does not issue his recommendation within the time frame set forth in this section, the DDEC Secretary shall continue the processes of evaluating the application in accordance with the Code and these Regulations.
**Article 6020.01(d)(3)-1. - Criteria for Qualifying for the Regular Process.**

(a) The Eligible Business must provide all information and documents required in Articles 6020.01(b)(2)-1, 6020.01(b)(2)-2, 6020.01(b)(2)-3, 6020.01(b)(2)-4, and 6020.01(b)(2)-5 of these Regulations, as applicable, and pay the fees for the corresponding procedure.

(b) The eligible activity must be described in an accurate and detailed manner.

(c) Shareholders, partners or members must not have a criminal record.

(d) Certificates of debt issued by the Agencies must not present any debt and if any debt is presented, the Eligible Business will present evidence of the existence of a payment plan.

(e) Any other factors that the DDEC Secretary deems reasonable as established by administrative determination, circular letter or newsletter.

**Article 6020.01(f)(2)-1. - Expedited Procedure.**

(a) An Expedited Procedure is provided for any Person who submits an application for incentive awards under the Expedited Procedure, who qualifies for the regular procedure and who includes with the application a Certificate of Pre-eligibility prepared by a Certified Professional, as defined in the Code and these Incentive Rules.

(b) The applicant who complies with the requirements established in the Expedited Procedure shall receive its Decree within a term not exceeding thirty (30) days, counted from the date in which the application process for the Grant of incentives was completed and the payment of the fees for the corresponding procedure has been issued, as established in this Article.

(c) **Filing fees.** - All incentive applications submitted through this expedited procedure shall include filing fees as set forth in Section 6020.01(b)(3)-1 of these Regulations, as applicable.

**Article 6020.01(f)(3)-1. - Certified Professional.**

(a) For the purposes of these Regulations, a Certified Professional is considered to be

1. An attorney admitted to the practice of law by the Supreme Court of Puerto Rico or a Certified Public Accountant who is licensed to practice law in Puerto Rico;

2. Be registered in the Registry of Certified Professionals maintained by the DDEC. The Certified Professional must apply for registration through the Portal.

(b) Certified Professionals shall, upon payment or remuneration, prepare a Certificate of Pre-eligibility, an application for incentive awards or compliance reports related to the issuance of Decrees as authorized by the DDEC Secretary.
(c) **Pre-eligibility certificate.** - The Certificate of Pre-eligibility will be prepared by the Certified Professional, submitted through the Portal along with the application for the applicable incentive awards. The Certificate of Pre-eligibility will include the following:

1. **Report signed by the Certified Professional where it will be stated and explained that the application complies with all the requirements and criteria established in the Code and these Regulations.** - The report shall include: (i) the name and number of the Certified Professional as recorded in the Registry of Certified Professionals; (ii) the name of the Eligible Business; (iii) detailed description of the eligible activities; (iv) provisions of the Incentive Regulations and the Code covering the eligible activities; (v) statement by the Certified Professional that he or she has passed judgment on the eligible activities and on the compliance of the Eligible Business with the Government of Puerto Rico, taking into consideration the evaluation of the supplementary documents required by these Incentive Regulations.

2. **Any other requirements established by the DDEC Secretary through administrative determination, circular letter or newsletter**

**Article 6020.01(f)(5). - Application and Evaluation Procedure.**

(a) The Certified Professional, together with the application for the granting of incentives, will submit the Certificate of Pre-eligibility through Portal.

(b) Within a term of five (5) days from the filing of the application for the Incentive Award, the Director of the Incentive Office shall review the application and the Certificate of Pre-eligibility for the purpose of determining that both meet the requirements set forth in the Code and these Regulations.

(c) The applicant that complies with the requirements established in the Expedited Procedure will receive its Decree within a term that will not exceed thirty (30) days, counted from the date in which the application process for the granting of incentives was completed. The application process shall be deemed completed if all information and documents required in Sections 6020.01(b)(2)-1, 6020.01(b)(2)-2, 6020.01(b)(2)-3, 6020.01(b)(2)-4, and 6020 are submitted.01(b)(2)-5 of these Rules, as the case may be, a Certificate of Pre-Eligibility is provided, pursuant to the provisions of Article 6020.01(f)(3)-1 of these Incentive Rules, and the Incentive Bureau validates the credentials of the Eligible Business and/or its owners. Therefore, if all information and documentation is not submitted, the thirty (30) day period will not commence. In the event the Incentive Bureau requests additional information or correction of information already submitted, the thirty (30) day period will be interrupted until the requested information is submitted. The Eligible Business shall cure the information...
deficiency within the term set forth in Section 6020.01(c)(2) of the Code. The term may be extended at the request of the Eligible Business, if there is Good Cause.

Article 6020.01(g)-1 - Interagency Consideration of Applications

(a) Under the extraordinary procedure, the DDEC Secretary shall send a notification to the Secretary of the Treasury and, when deemed appropriate, to any other corresponding government agency or entity, including the CRIM and the municipalities where the applicant business will operate. Such notice shall be sent within five (5) business days from the date the application for the incentive is submitted.

(b) Each notified agency, as well as the municipalities and the CRIM, will have a term of twenty (20) working days to submit their comments, counted from the date they receive the application for the award of incentives. Comments should be submitted to the DDEC Secretary through the Portal (SBP).

(c) After the twenty (20) working days indicated in paragraph (B) of this section, the Incentive Office shall complete the evaluation of the incentive application and issue the recommendation to the DDEC Secretary within ten (10) working days.

(d) The notice set forth in subsection (A) of this section shall be sent electronically using the Portal (SBP), created for these purposes. All communications regarding the application for incentives will be made by accessing the applicant's account on the Portal (SBP) established for these purposes by the Incentive Bureau.

(e) In the case of amendments to concessions approved under the Code, the period for the agencies and municipalities concerned to submit their comments to the DDEC Secretary shall be ten (10) working days.

Article 6020.01(i)(1)-1. - Compliance with Terms of Decrees.

(a) The DDEC Secretary may include in the Decrees those clauses, terms and conditions he deems necessary to address the lack of compliance with the terms and conditions of the Decrees, including:

1. The revocation of the Decrees;
2. Reduce exemptions; and
3. Increase the fixed rate of contribution on income contribution.

(b) In the course of enjoying the benefits granted, the DDEC Secretary shall retain the power to require the Exempt Business to strictly comply with the rules set forth in these Regulations or any other applicable regulations or law.

(c) If such rules or the conditions under which the grant was issued are not met, the DDEC Secretary may initiate a procedure aimed at revoking the grant.

(d) The DDEC Secretary shall take into consideration a Grantee's compliance with the terms and conditions set forth in a Decree when renegotiating or approving an
amendment to the Decree. If the Grantee is not in compliance with the terms and conditions of the Decree, the applicable clauses contained in the Decree addressing the situation of non-compliance shall be enforced.

(e) If there are no clauses in the Decree to address any non-compliance with the terms and conditions of the Decree at the time of renegotiation or request for amendments:

(1) The Licensee shall pay the filing fees for these cases, as established in this Article or through administrative determination, circular letter or newsletter issued by the DDEC Secretary.

(2) The Licensee shall submit an affidavit detailing the actions constituting the breach.

(3) The DDEC Secretary will evaluate this affidavit in conjunction with the Grantee's file and make a decision regarding the renegotiation or amendment of the Decree.

(4) The DDEC Secretary shall, to the extent possible, examine cases of non-compliance by other grantees with similar facts and apply a similar determination in the case.

(5) The DDEC Secretary will include in the Decree to be renegotiated or as part of the amendments to the existing Decree, clauses that will provide for the procedures that will be applied in case of future non-compliance.

(f) All decisions and determinations of the DDEC Secretary under the Code and these Regulations, as to the approval of the application for the Grant of Incentives and its contents, shall be final and against which no judicial or administrative review or other appeal shall proceed. Once a Grant is granted, no agency, public instrumentality, political subdivision, public corporation or municipality of the Government of Puerto Rico may challenge the legality of such Grant or any of its provisions.

Article 6020.02(a)(1)-1. - Effective Date for Exempt Businesses Whose Decree Has Expired at the Time of Requesting a New Decree.

(a) Any date within the Tax Year in which the application is filed or the first day of the following Tax Year, at the option of the Exempt Business.

(b) The semesters of total exemption in patents and properties contained in the original Decree will not be granted, if applicable.
Article 6020.02(a)(3)-1. - Additional Provisions, Notifications to DDEC of Commencement of Operations.

(a) The date of commencement of operations and the periods of exemption of the Exempt Business that has a Decree under the Code and these Regulations, for purposes of the applicability of the fixed rate of contribution on income established in the Decree, shall be notified by filing an affidavit through the Portal.

(b) In the case of Individual Resident Investors, they must notify through a sworn statement the date in which they established their residence in Puerto Rico.

(c) In the case of Qualified Physicians, Eligible Researchers or Scientists and Difficult to Recruit Professionals, they must notify by affidavit the date they began providing their respective services in Puerto Rico.

Article 6020.03(b)-1. Renegotiation of Decrees under Subtitle B of the Code.

(a) Except as provided in Article 6020.03(b)-2, any Business Exempt under the Code, or under Prior Incentive Laws, may apply to renegotiate its Decree for the enjoyment of the benefits granted under the Code.

(b) The DDEC Secretary's approval to renegotiate an Exempt Business Decree is based on the business' ability to increase eligible activities or services. The ability of the business may be assessed by the amount of market demand, the potential for additional capital investment in the business and/or increased employment.

(c) Upon the recommendation of other agencies of the Government of Puerto Rico, the DDEC Secretary may, in his discretion, consider the renegotiation taking into account any other factor or circumstance that reasonably demonstrates that the renegotiation of its Decree will be in the best social and economic interests of Puerto Rico.
Article 6020.03(b)-2. - Renegotiation of Decrees under Chapter 6 of Subtitle B of the Code.

(a) **In general.** - Any Business Exempt under Prior Incentive Laws, as the case may be, may apply to renegotiate its Decree for the enjoyment of the benefits granted under Chapter 6 of Subtitle B of the Code.

(b) **Application requirements.** - Any Exempt Business under paragraph (a) of this Article may apply to the DDEC Secretary to consider renegotiating an existing Decree if the Exempt Business can demonstrate that

1. Will increase the average number of jobs in the three (3) Taxable Years prior to the date of filing the renegotiation request by twenty-five percent (25%) or more; or

   A) For purposes of this Article, employment shall consist of the number of Individual Residents of Puerto Rico who work permanently on a regular full-time basis at the Exempt Business providing services as an employee, even though they are not directly on the payroll of the Exempt Business (such as persons provided by personal lease, but shall not include persons such as consultants or independent contractors).

2. You will make a substantial investment in your existing operation that will help maintain economic and employment stability and that represents a twenty-five percent (25%) or more increase in the property investment devoted to eligible activities existing as of the effective date of the Code.

   A) For purposes of this Article, the investment of the Exempt Business, which holds a Decree under Chapter 6 of Subtitle B of the Code, in its existing operation shall be computed according to the book value of the property dedicated to industrial development, computed with the benefit of the depreciation admissible under the straight-line method, taking into account the useful life of such property determined in accordance with Subtitle A of the Puerto Rico Internal Revenue Code, instead of any other accelerated depreciation allowed by law. If the Exempt Business cannot comply with the requirements of increase in average employment or investment described above, it must submit satisfactory evidence to the Incentive Bureau (to the DDEC Secretary).

(c) The DDEC Secretary, upon the favorable recommendation of the Secretary of the Treasury, and upon the recommendation of the agencies of the Government of Puerto Rico that report on tax exemptions as set forth in Article 6020.01-11-1, may in its discretion consider the renegotiation taking into account any other factor or circumstance that reasonably demonstrates that the renegotiation of the Decree will be in the best social and economic interests of Puerto Rico. Likewise, the investment of capital and the creation of jobs and wealth fostered by the Exempt Business, the
remainder of the period of its Decree, the tax benefits already enjoyed and its financial
capacity will be taken into consideration, so that the Exempt Business may obtain a
new Decree with tax benefits adjusted under the Code. As expressed in the Code,
through the evaluation of the Decrees, the Government of Puerto Rico seeks to
promote the renewal of existing decrees and the approval of new decrees to maintain
or expand the manufacturing activity in Puerto Rico, as a primary sector of generation
of revenue for the government and generation of economic activity, jobs and income
in the local jurisdiction.

(d) When the Exempt Business interested in renegotiating its Decree does not fully
comply with the requirements for increased employment or investment set forth in this
Article, the DDEC Secretary may, upon favorable recommendation of the Secretary of
the Treasury and the Director of Incentives and the agencies of the Government of
Puerto Rico that report on tax exemptions, impose a fixed rate of contribution on
Industrial Development Income higher than that imposed in the Exempt Business
Decree.

(e) The DDEC Secretary may not grant a fixed rate of contribution on the Industrial
Development Income under this section of less than four percent (4%).
Notwithstanding the foregoing, the DDEC Secretary may grant a fixed rate lower than
the mentioned one to the following Exempt Businesses: Exempt Businesses that carry
out a Pioneer New Activity; Exempt Businesses considered as New SMEs and Exempt
Businesses operating in the municipalities of Vieques and Culebra. Provided, for
purposes of these businesses, the fixed rate established in the renegotiation shall be
applicable only with respect to the annual Industrial Development Income, computed
under the Code, excluding the Income from Eligible Investments referred to in Section
1020.06(a)(3) of the Code, that exceeds the Base Period Income as defined below. For
purposes of this paragraph, "Base Period Income" means the highest figure that results
from comparing the Industrial Development Income in the last taxable year prior to
the date of application for renegotiation, excluding income from investments
described in Section 1020.06(a)(3) of the Code under the analogous provisions of the
Prior Incentive Laws, with the average annual Industrial Development Income,
computed under the Prior Incentive Laws, but excluding Income from Eligible
Investments from investments described in Section 1020.06(a)(3) of the Code under
the analogous provisions of the Prior Incentive Laws, for the three (3) tax years with
the highest Industrial Development Income (excluding income from investments
described in Section 1020.06(a)(3) of the Code under the analogous provisions of the
Prior Incentive Laws) of the five (5) tax years prior to the date of application for
renegotiation under this Article, or the lesser applicable period. In the case of exempt
businesses that have been in operation for a period of three (3) years or less as of the
date of the application for renegotiation, the Base Period Income shall be the average
annual Industrial Development Income, excluding the income from the investments described in Section 1020.06(a)(3) of the Code of the analogous provisions under the Prior Incentive Laws accrued during such period, computed under the Prior Incentive Laws applicable to the Decree.

(f) An amount equal to the Base Period Income shall be taxed each taxable year under the provisions of the Decree issued under the Prior Incentive Laws renegotiated under this section, including, but not limited to, the contribution on dividends or distributions of Industrial Development Income and the contribution on liquidation applicable under the Prior Incentive Laws, for the remainder of the exemption period of the prior renegotiated Decree, provided that the Industrial Development Income, as defined in Section 1020.06(a)(2) of the Code, (excluding income from investments described in Section 1020.06(a)(3) of the Code under the analogous provisions of the Prior Incentive Laws for the taxable year) is greater than the Base Period Income. If Industrial Development Income (excluding income from investments described in Section 1020.06(a)(3) of the Code under the analogous provisions of the Prior Incentive Laws for the taxable year) for any taxable year computed under the Code is less than Base Period Income, Industrial Development Income, excluding income from investments described in Section 1020, shall be computed.06(a)(3) of the Code under the analogous provisions of the Prior Incentive Laws for such year in which the previous renegotiated decree was approved, and this amount will be taxed under the provisions of the Prior Incentive Laws, provided that it does not exceed the Base Period Income. In addition, the Industrial Development Income from the investments described in Section 1020.06(a)(3) of the Code will be subject to the provisions of the Prior Incentive Laws applicable to the renegotiated Decree under this section, for the remainder of the exemption period of the previous renegotiated Decree, up to an amount not exceeding the Income from Eligible Investments of the base period, including, but not limited to, the contribution on dividends or distributions of Industrial Development Income and the contribution on liquidation applicable to the distributions of such Income from Eligible Investments. For purposes of this paragraph, "base period Income from Eligible Investments" means the average annual Industrial Development Income from the Income from Eligible Investments described in Section 1020.06(a)(3) of the Code under the provisions analogous to the Prior Incentive Laws applicable to the Decree, for the three (3) tax years with the highest income from such investments of the five (5) tax years prior to the date of application for renegotiation under this section, or the lowest applicable period. In the case of Exempt Businesses that have been in operation for a period of three (3) years or less as of the date of the application for renegotiation, the Income from Eligible Investments of the base period shall be the average annual income from such investments accrued during such period, computed under the Previous Incentive Laws corresponding to the
Decree. Once the exemption period under the previous decree expires, it will apply the fixed rate of four percent (4%) to all Industrial Development Income earned by the Exempt Business, excluding the Income from Eligible Investments, which will be totally exempt from contribution.

(g) Exempt Businesses that renegotiate their Decree under the provisions of this section and that at the date of renegotiation had been operating under the provisions of the Prior Incentive Laws, may distribute the benefits accrued before the effectiveness of the renegotiation at any time thereafter, but such distributions shall be made in accordance with the tax treatment provided in the Decree granted under the Prior Incentive Laws under which such benefits were accrued.

(h) Exempt businesses that renegotiate their decrees under this section will be taxed in full settlement, as to their Industrial Development Income, in accordance with the tax treatment provided in each of the laws under which such benefits were accrued.

(i) All other terms, conditions, and benefits contained in Chapter 6 of Subtitle B of the Code not inconsistent with the provisions of this section shall apply to Exempt Businesses covered by this section.

(j) The effective date of the new renegotiated Decree will be any date within the tax year in which the Exempt Business files the request for renegotiation or the first day of the following tax year, at the option of the Exempt Business.

Article 6020.03(c)-1. - Extension.

(a) **Request for extension of the exemption period.** - The request for extension must be filed by the Exempt Business within a period of twelve (12) months ending on or before the due date of its income tax return, including extensions, according to the provisions of the Internal Revenue Code, for the last year in which the Exempt Business will enjoy income tax exemption.

(b) The effective date of the Extension Decree will be the day after the end of the exemption period of the previous Decree.

Article 6020.04(a)-1. - Conversion of Decrees under Subtitle B of the Code.

(a) Except as provided in Article 6020.04(a)-2, any Exempt Business under Prior Incentive Laws may apply to have its Decree converted to the provisions and benefits set forth in the Code and these Regulations.

(b) The DDEC Secretary will evaluate if the Exempt Business has complied with all the legal provisions applicable to the previous Incentive Law under which it was granted its Decree and if the Exempt Business has been in compliance with the provisions agreed under its current Decree.
(c) In addition, the DDEC Secretary must determine whether the Conversion of the Decree will be in the best social and economic interests of Puerto Rico.

(d) The benefits granted in the converted Decrees may not be greater than those provided for in the Code.

(e) Exempt Businesses that have not begun operations as of the effective date of the Code may request to convert them, at the discretion of the DDEC Secretary, for the remaining period of time originally granted in such decree, in which case, if the conversion is approved, their exemption will be adjusted according to the benefits granted under the Code.

(f) Exempt Businesses whose Decrees were granted on or before the effective date of the Code and which had not been enjoying exemption before such date may request to convert them according to the benefits granted under the Code.

Article 6020.04(a)-2. - Conversion of Decrees under Chapter 6 of Subtitle B of the Code.

(a) An Exempt Business under Prior Incentive Laws, as the case may be, may apply to rely on the provisions of Chapter 6, Subtitle B of the Code, subject to the limitations set forth below, provided it demonstrates that it is complying with all applicable legal provisions. The exemptions granted in the converted Decrees may not be greater than those provided for under the Code.

(1) Exempt businesses that have not begun operations as of the effective date of the Code may request to convert them for the remainder of the time period originally granted, in which case, their tax exemption granted under the Sections provided in Subchapter B of Chapter 6 of Subtitle B of the Code shall be adjusted.

(2) Exempt Businesses whose Decrees were issued on or before January 1, 2008, and that had not been enjoying a tax exemption prior to that date, except under such Decrees, may apply to convert them, in which case their tax exemption granted in Subchapter B of Chapter 6 of Subtitle B of the Code will be adjusted. The rate fixed under paragraph (a) of Section 2062.01 of the Code shall apply to Industrial Development Income as provided in paragraph (g) of Section 2062.01 of the Code.

(3) The DDEC Secretary, upon recommendation of the agencies of the Government of Puerto Rico that provide reports on tax exemptions, when considering any request for conversion under this Article, shall establish the terms and conditions he deems necessary and convenient to the best interests of Puerto Rico, within the limits provided in the Code, as well as impose special employment requirements, and/or limit the percentage of exemption,
the contributions to be covered by the Decree, provide a fixed rate of contribution on Industrial Development Income higher than that provided in paragraph (a) of Section 2062.01 of the Code, but never more than seven percent (7%), and/or require and provide for any other terms or conditions that are necessary and appropriate under the purposes of the Code.

(4) Exempt Businesses that convert their Decrees under the provisions of this Article and that at the effective date of the conversion had been operating under Law No. 73-2008, as amended, may distribute benefits accrued prior to the effective date of the conversion at any time thereafter, in accordance with the tax treatment provided in each of the prior incentive laws under which such benefits were accrued.

(5) The Exempt Businesses under the provisions of this Article shall be taxed in total liquidation, as to their Industrial Development Income, in accordance with the tax treatment provided in each of the Prior Incentive Laws under which such benefits were accrued.

(6) The benefits of this Article may be requested within twelve (12) months from the date of approval of the Code and the effectiveness of its provisions may be fixed from the first day of the tax year in which the benefits are requested and up to the first day of the next tax year, at the choice of the Exempt Business.

(7) The other terms, conditions, and benefits contained in Chapter 6 of Subtitle B of the Code not inconsistent with the provisions of this Article shall apply to Exempt Businesses covered by this Article.

Article 6020.07(c)(1)-1 Transfer of Exempt Business

(a) At the request of an Eligible Business and when Good Cause exists, notifications of transfers included in the exceptions in paragraph (b) of Section 6020.07 of the Code may be made within the time period authorized by the DDEC Secretary.

Article 6020.10(a)(4)-1. - Reporting.

(a) Reports required from Exempt Businesses and their shareholders. - Every Exempt Business that has a Decree under the Code or any Prior Incentive Law, shall file annually electronically with the Incentive Bureau, no later than the fifteenth (15th) day of November following the close of the Calendar Year, in the case of Exempt Businesses with a Calendar Year or the fifteenth (15th) day of the eleventh (11th) month following the close of the Tax Year, in the case of Exempt Businesses, a compliance report.

(b) Reports shall contain all information required by this Article and the Code. If the DDEC notifies the Exempt Business of any omission or deficiency in the Report through the Portal and the Exempt Business does not correct the deficiency within
fifteen (15) days of being notified, or does not provide just cause for such deficiency within that same time, such Report shall be deemed not to have been filed and the Exempt Business shall be exposed to (i) an automatic administrative fine of one thousand dollars ($1,000), for each report not filed and/or (ii) additional administrative penalties, including revocation of the Decree. The DDEC Secretary may assess a fine of up to $10,000 when he deems it meritorious, as authorized by Section 6020.10 of the Code. The factors under which the Secretary shall impose penalties may be adopted by a generally applicable ruling, taking into account the number of omissions and deficiencies of the Exempt Business and other relevant factors.

**Article 6020.10(a)(4)(iv)-1. - Information and Documentation Required with Report.**

(a) General Information:

1. Number assigned to the application;
2. Employer Insurance Number;
3. Name of Exempt Business;
4. Type of Entity;
5. Taxation method;
6. Merchant registration number;
7. Identification number for real estate tax purposes.

(b) General Dealer Information:

1. Date of effectiveness of the Decree;
2. Start of operations;
3. Date of the end of the Tax Year;
4. Online Exempt Business Site;
5. E-mail;
6. Phone number;
7. Fax number;
8. Mailing address;
9. Physical address;
10. Eligible activity and percent of operations dedicated to these eligible activities.

(c) Employee information:

1. Employment requirement under the Decree;
2. Number of full-time jobs devoted to eligible activities;
3. Number of full-time jobs devoted to ineligible activities.

(d) Financial Information:

1. Total Sales;
2. Wages and Employee Benefits;
3. Municipal Taxes;
(4) Other Operating Costs and Expenses;
(5) Other income;
(6) Income before income tax;
(7) Contribution on income;
(8) Net income;
(9) Securities and other financial instruments;
(10) Real estate assets;
(11) Machinery and equipment;
(12) Other Assets;
(13) Total Assets;
(14) Total Debts;
(15) Capital.

(e) Tax Savings:
   (1) Contribution on income;
   (2) Municipal Taxes;
   (3) Property taxes.

Exports and other Information:
   (1) Name of the Person who received the service or product;
   (2) Country;
   (3) Service or product exported;
   (4) Percentage of export of total sales.

(f) Documents to be submitted for the year of the report:
   (1) Financial statement;
   (2) Income volume declaration;
   (3) Income tax form;
   (4) Certification of real estate debt issued by CRIM within thirty (30) days prior to filing the Annual Report.

(g) Information and documentation required with the Report in the case of Businesses Exempt under Chapter 2 of Subtitle B of the Code:
   (1) General information:
      (A) Name;
      (B) Decree number;
      (C) Gender;
      (D) Phone number;
      (E) E-mail;
      (F) Mailing address;
      (G) Residential address;
      (H) Date of the Decree;
      (I) Date of the end of the Tax Year;
      (J) Net worth;
(K) Identification number;
(L) Citizenship;
(M) Marital status.

(2) Financial information:
(A) Segregation of exempt and non-exempt income from the following sources
   (i) Interest;
   (ii) Dividends;
   (iii) Capital gains;
   (iv) Wages;
   (v) Others.

(3) Real estate information:
(A) Rented or owned property;
(B) Physical address;
(C) Monthly rent payment, if applicable.

(4) Asset information:
(a) Total assets for the year of the report and the previous year:
   (B) Financial;
   (C) Real estate property;
   (D) Privately held business;
   (E) Others.

(5) Home information:
(A) Number of family members in addition to the Dealer, if applicable;
(B) Age of family member;
(C) Educational institution where you study, if applicable;
(D) Gender.

(6) Other information:
(A) Days that the Dealer lived in Puerto Rico;
(B) Expenses incurred in Puerto Rico in the Calendar Year prior to the Report, excluding residential rent or mortgage payments;
(C) In the case of Individual Resident Investors
   (i) Name of the nonprofit organization to which you made the annual contribution as set forth in this Article;
   (ii) Certification issued by the nonprofit institution to which the contribution was made, certifying the amount donated and the tax year for which the contribution was made.

(7) Documents to be submitted with the Report:
(1) Income tax form for the period applicable to the report.
(h) Specific Application Provisions:

(1) Incentives from Subchapter D of Chapter 1 of Subtitle B, on Pioneering Novelty Activity
   
   (A) The Pioneer Activity Report will not require the payment of a filing fee;
   
   (B) The Exempt Business shall be subject to the other provisions set forth in this Article and Section 6020.10 of the Code, including the administrative fine, in the event of non-compliance.

(2) Incentives under Chapter 2 of Subtitle B, on Individual Investors:
   
   (A) For purposes of compliance with the requirement of acquisition of principal residence in the jurisdiction of Puerto Rico established in Section 6020.10 (c) of the Code, the Individual Resident Investor shall be deemed to have complied with the requirement if prior to the filing of the application for the grant of incentives under Section 2021.01 of the Code, the Individual Resident Investor acquired as sole owner, or jointly with his or her spouse (it shall be understood that this is fulfilled if the Individual Resident Investor acquires through an organized entity in Puerto Rico which he or she owns in full or jointly with his or her spouse), by purchase, the ownership of real property in Puerto Rico as his or her principal residence, acquired from an owner, whether a person or company, totally unrelated and unrelated to the Individual Resident Investor. The Individual Resident Investor must submit evidence of the acquisition in the application for the granting of incentives and prove in the Annual Report that he or she maintains exclusive and complete ownership of a real estate property as his principal residence, either exclusively or together with his or her spouse, during the entire term of the Decree.

   (B) If the Individual Resident Investor chooses to acquire as sole owner, or jointly with his or her spouse (it will be understood that this is fulfilled if the Individual Resident Investor acquires through an organized entity in Puerto Rico which he or she owns in its entirety or jointly with his or her spouse), by purchase, the ownership of a land to build his or her principal residence in Puerto Rico, the requirement established in Section 6020.10 (c) of the Code shall be deemed fulfilled if the Individual Investor provides evidence of the completion of the construction of the principal residential property within two (2) years after obtaining the Decree under the Code and proves in the Annual Report, that he maintains exclusive and complete ownership of a real estate property as his principal residence, either exclusively or jointly with his spouse, during the entire term of the Decree. Of the construction of the main residential property not having
finished within the mentioned period of two (2) years, if Just Cause exists, and at the request of the Individual Resident Investor, the mentioned period may be extended for two (2) additional years.

(3) Incentives for Chapter 5 of Subchapter B of the Code, Visitor Economics:

(A) In addition to the requirements of the generally applicable provision set forth in this Article, the Exempt Business must submit a detail of the costs incurred in the development of the Tourism Project, if any, accompanied by the evidence necessary to validate these costs. The DDEC Secretary, through an administrative determination, circular letter or newsletter, shall establish the evidence necessary for the validation of these costs.

(4) Incentives for Chapter 5 of Subchapter B of the Code, Condo Hotel

(A) The operator of the Condo Hotel Program shall submit annually, before January 31st, a sworn statement to the Incentive Director and the Secretary of the Treasury containing the following information of the previous Tax Year;

(B) In addition to the requirements of the generally applicable provision, a summary of the total number of units participating in the Condo Hotel Program must be established, broken down by month and indicating the individual number of each unit that participated in the program during that month;

(C) Summary by unit indicating the name and address of the unit owner, the date of beginning of participation in the Condo Hotel Program, the date in which the unit owner ceased to participate in the Condo Hotel Program, the number of concessions for each unit, the number of days of the area in which the unit was reserved and used by the unit owner, the number of days of the year in which the unit owner used the unit without reserving it, the number of days of the year during which the unit was rented to others as a Condo Hotel unit and the remuneration paid to the owner for the use as a Condo Hotel unit.

(5) Incentives for Chapter 8 of Subchapter B of the Code, Agro-industries:

(A) In addition to the information required in the generally applicable provisions, they shall submit a compliance report including the Bona Fide Farmer's Certificate in effect for the calendar year the report is submitted.

(j) The DDEC Secretary may request the Exempt Business to submit such additional information and/or documentation as he deems necessary to evaluate and verify compliance.
Article 6020.11(a)-1. - Anti-Abuse Rules.

(a) Scope and Limitations. –

(1) If the DDEC Secretary or any other Agency Secretary has any suspicion of non-compliance by a Grantee, they may require such information or documentation as they deem necessary to determine whether there was in fact any failure by the Grantee to comply with the provisions of their Decree.

The DDEC Secretary shall have the power to annul the granting of a Decree, or transaction related to the Decree, retroactively. In addition, the DDEC Secretary may prohibit additional applications for any incentive provided by the Code, or transactions related thereto.

(2) In cases of revocation of a grant awarded under the Code, the grantee shall have the opportunity to appear and be heard at a hearing before a designated DDEC employee, who shall report his or her findings and recommendations to the DDEC Secretary.

CHAPTER 3. - PROVISIONS APPLICABLE TO SUBTITLE C

Article 6030.01(a)(1)-1. Application Procedure for Tax Credit.

(a) Procedure for the application of the Accreditation Certificate. - An Exempt Business interested in a Certificate of Credit must submit an application to the DDEC on or before the date for filing the income tax return corresponding to the Tax Year in which the Eligible Investment was made, as provided by the Internal Revenue Code, including any extension granted by the Secretary of the Treasury for the filing of the same. The DDEC shall issue an Administrative Decree or analogous publication in order to establish the procedure to be followed to file the application for the Accreditation Certificate. The application shall include the following detailed and updated information:

(1) General information about the Exempt Business;
(2) Information on the Research and Development project and the activities carried out during the contribution year in question; and
(3) List of expenditures related to eligible research and development activities conducted during the Contribution Year.
(4) Evidence of Intellectual Property registration, if any;
(5) Any other information or documents that are required by the DDEC Secretary or that the Exempt Business deems necessary for the evaluation of the application.
Article 6030.01(a)(1)-2. - Expedited Procedure for Obtaining Certificate of Accreditation.

(a) The development of a new product or the improvement of an existing product whose Research and Development project is subsidized by a Federal Government Entity of the United States of America such as the National Science Foundation, National Institute of Health, or Department of Energy, among others similarly qualified and approved by the Executive Director, will be considered an Eligible Activity.

(b) The process for obtaining the Certificate of Accreditation will be limited to submitting the appropriate documentation for grant approval and the progress reports required by the Federal granting entity.

Article 6030.01(a)(1)-3. - Denial and Reconsideration.

(a) In cases where a negative Certificate of Credit is issued, the DDEC Secretary shall notify the denial in writing by certified mail, stating the reasons for the denial, the terms, and the appropriate forums for appealing the decision.

(b) Once the Exempt Business is notified of the denial, it may make use of the provisions on reconsideration and judicial review applicable to administrative determinations under Law number 38-2017, as amended, known as the "Government of Puerto Rico Uniform Administrative Procedure Act.

Article 6030.01(a)(2)-1. - Report of Previously Agreed Upon Procedures for Research and Development Tax Credit.

(a) An Exempt Business under the Code must accompany the list of expenses with an Agreed Upon Procedures ("AUP") Report, made by a Certified Public Accountant licensed in Puerto Rico and belonging to a peer review program, in order to certify the amount of the Eligible Investment. No business relationship between the CPA and the Investor or Exempt Business may exist, except for the execution of the audit and the AUP. No Authorized Public Accountant who is the internal controller of the Investor or Exempt Business, or who maintains its books, may be the Authorized Public Accountant that certifies the expenses. To prepare the AUP, the CPA must perform the following procedures:

(1) Verify the expenses considered by the Exempt Business as eligible to be included in order to determine that the expense (1) has been properly billed to the Exempt Business, (2) has been subsequently paid by the Exempt Business, and (3) qualifies as an eligible R&D activity under Section 3030.01(a)-1 of these Regulations.
For expenditures that combine eligible and ineligible activities, verify the allocation formula used to ensure that it appropriately reflects the portion of the expenditure related to the R&D project.

Prepare an Attachment detailing the expenses to be included in the list of eligible expenses, which you include: (1) the Supplier's name, (2) the date of the invoice, (3) the invoice number, (4) the date of payment, (5) the check number or evidence of payment, and (6) a brief description of the expense included. In addition, for each expense included in the Attachment, reference must be provided to the Regulation Article or Code Section under which the expense was determined to be eligible.

Due to the time consumed and economic impact of evaluating each eligible expenditure, the DDEC Secretary may authorize the Certified Public Accountant to use one of the sampling methods listed below. Sampling, whether statistical or non-statistical, is the process by which the Certified Public Accountant selects a group of items from a larger group of items in the investment claimed to be eligible and evaluates them for eligibility under the Code. The DDEC Secretary will use the sampling results that are certified by the CPA to infer the characteristics of the entire item population to determine the amount to be awarded in R&D credits.

A brief description of acceptable sampling methods is provided below:

(A) **Statistical sampling.** - It is based on the laws of probability, allowing the CPA to have control of the risk by being guided by sample results to calculate the sampling risk. The maximum tolerable amount of risk is ten percent (10%), so the level of certainty must be at least ninety (90%). Recommended approaches to statistical sampling are sampling with classical variables and probability-proportional-to-size (PPS) sampling. Classical variables techniques use a normal distribution to evaluate the outcome samples. The PPS approach uses attribute sampling theories. Both approaches provide sufficient evidence to meet the objectives of the CPA.

(B) **Non-statistical sampling.** - This type of sampling approximates the risk of sampling using professional judgment rather than statistical techniques. Sampling methods should be selected so that the result is expected to be representative of the population. In addition, the errors encountered by statistical and non-statistical sampling should be used to calculate the amount of error in the population. However, non-statistical sampling does not provide ways to determine risk. Therefore, the CPA may take larger samples than necessary. To carry out non-statistical sampling, the CPA should consider the effects of several factors in
determining sample size, including, but not limited to, inherent risk and control risk, tolerable error, estimated size and frequency of errors, and estimated population variance. If a non-statistical sampling method is used, the tolerable error should not exceed five percent (5%) of the total list of R&D-related expenditures.

**Article 6030.01(a)(3)-1. - Application for Tax Credit.**

(a) **Accredited Certificate.** - An Exempt Business interested in claiming credit under Section 3030.01 of the Code must accompany its income tax return with a Certificate of Credit issued in its favor.

(b) The certificate must be requested on or before the due date of the income tax return for the Tax Year in which the Special Eligible Investment was made.

(c) As provided in Section 3030.01 of the Code, the Credit Certificate shall credit the amount of the Special Eligible Investment and the amount of the Tax Credit granted for each Tax Year.

(d) To obtain a Certificate of Credit and qualify for the R&D Investment Tax Credit, the Exempt Business must meet the following requirements, which will be evaluated by the Executive Director:

1. The purpose of an R&D Project must be the development of a new Product, or Process; or improvement of an existing Product with the purpose of competing in new markets, preferably from abroad.

2. The Process or manufacture of the developed Product, the export of the new services or the licensing of the technologies resulting from an R&D project must be established in Puerto Rico.

3. Experimental Activities in an R&D Project, as defined in paragraph (1) of Section 3030.01(a)-1, must be conducted in Puerto Rico. R&D projects shall be eligible when a minimum of eighty percent (80%) of the total Experimental Activities are conducted in Puerto Rico. This determination will be made based on the hours incurred by the trained personnel.

4. The Exempt Business, or an Affiliated Entity, must assume the financial risk associated with the development of the Product or Process of the R&D Project, even if it subcontracts part of the Eligible Activities to another Entity that provides Professional Technical Services.

5. The R&D Project should positively impact the socioeconomic development of Puerto Rico by creating the capacity to produce innovation that facilitates the export of competitive products, among others. The economic impact that the R&D Project will represent for Puerto Rico will be determined based on the following factors.
(A) The quality and quantity of jobs that can be created from the commercial implementation of the R&D result;
(B) The tax impact that the commercial implementation of the R&D result may generate;
(C) The creation or implementation of emerging technologies or technologies of strategic interest;
(D) The development of new knowledge and special skills that increase the capacity in Puerto Rico to create innovative and competitive products, processes or services in global markets;
(E) Any other factor that merits recognition that the R&D Project will result in the best economic and social interests of Puerto Rico.
CHAPTER 4. - PROVISIONS APPLICABLE TO SUBTITLE D

Article 6040.01(c)-1. - Wage Subsidy Program.

(a) The Tenderer must submit the following information, documents and payment for the application process to apply for Wage Subsidy Program funds for its Farm Workers:

(1) Information Required for Proposal Evaluation and Selection
   (A) Name of the person authorized through the Corporate Resolution;
   (B) Address and e-mail of the person authorized by the Corporate Resolution;
   (C) Subsidy or Program under Title D of the Code for which the proposal is being submitted;
   (D) Describe the Project that is being carried out, which is why the funds are being requested; and
   (E) Mention how the Project impacts the best economic and social interests of Puerto Rico.

(2) Required Documents for Proposal Evaluation and Selection
   (A) Corporate resolution with the name and signature of the authorized person;
   (B) Evidence of how you plan to fund the Project;
   (C) Financial statements of the entity as evidence of its economic capacity:
      (i) If no financial statements are available, evidence of the assets held by the entity;
      (ii) If it is necessary that any item included in the Proposal be certified, the proponent must support it by submitting to the Incentive Bureau an Agreed Upon Procedures Report made by a Certified Public Accountant licensed in Puerto Rico, the DDEC Secretary shall establish the contents of the Agreed Upon Procedures Reports by means of a circular letter or administrative decree.
   (D) Bona Fide Farmer's Certificate for the period for which the funds are requested;
   (E) Affidavit by a Notary Public of Puerto Rico stating that you meet the requirements of Section 4010.01 of the Code;
   (F) Evidence of possession, management, administration, usufruct or other exclusive enjoyment by an eligible farmer on one or more farms;
   (G) Annual Application for Eligible Farmers to receive production-based wage subsidy (ADEA-PSS-01). This annual application is filed each
year during the month of July and is due by June 30 of the following
year. However, any eligible farmer interested in entering the Program
for the first time may apply at any time during the year;

(H) Copy of employer responsibility from the following agencies:
   (i) State Insurance Fund Corporation (Workers' Insurance)
   (ii) Department of Labor and Human Resources (Unemployment
        Insurance); and
   (iii) Federal Social Security (Social Security Employers).

(I) Negative Certificate of Debt from the following agencies
   (i) State Insurance Fund Corporation; and
   (ii) Department of Labor and Human Resources.
   (iii) Copy of the acknowledgement of completion of the General
        Survey from the Statistics Division of the Department of
        Agriculture.

Article 6040.01(c)-2. - Annual Bonus.

(a) The proponent must submit the following information, document and payment for the
    procedure to apply for funds from the Annual Bonus Program:

   (1) Information Required for Proposal Evaluation and Selection
       (A) Number of agricultural workers employed for compensation;
       (B) Estimated hours worked per employee;
       (C) Location of the farm or property.

   (2) Required Documents for Proposal Evaluation and Selection
       (A) Bona Fide Farmer's Certificate for the period for which the funds are
            requested;
       (B) Affidavit by a Notary Public of Puerto Rico stating that you meet the
            requirements of section 4010.02 of the Code;
       (C) Negative CRIM certificate of the farm or property;
       (D) Evidence of possession, management, administration, usufruct or other
            exclusive enjoyment by an eligible farmer on one or more farms;
       (E) Farmworker Application for Bonus.
Article 6040.01(c)-3. - Application.

(a) Information that the proposal will require:
   (1) Number of the Decree in force granted by the Code or Laws of Previous Incentives.
   (2) Dealer Financial Information:
       (A) Active;
       (B) Liabilities;
       (C) Estimated earnings from operations included in the Decree for the next three (3) years;
       (D) Estimate of expenses payable for employment attributable to the exempt and non-exempt operations, if applicable, for the next three (3) years.
   (3) Detailed description of how the Licensee plans to use the monetary stimulus in compliance with the provisions of the Decree

(b) Documents that the proposal will require:
   (1) Copy of the current Decree;
   (2) Certificate of negative agency debt in compliance with Section 6011.03 of the Code;
   (3) Bona Fide Farmer's Certificate, if applicable

CHAPTER 5. - PROVISIONS APPLICABLE TO SUBTITLE E

Article 6050.01(e)-1. - Application for Funds

(a) These Regulations will establish the fees to be charged for the procedure. The amount shall be reviewed every three (3) years after its approval.

SUBTITLE G. - OPPORTUNITY AREAS IN PUERTO RICO
[RESERVED]

SUBTITLE H. - FINAL PROVISIONS

Article 6070.68-1. - Application of other laws and regulations.

The Internal Revenue Code and the regulations published under it shall apply in a supplementary manner to the extent that their provisions do not conflict with the provisions of the Code and these Regulations.
Article 6070.69-1. - Reserved.

Article 6070.70-1. - Supremacy.

The provisions of these Regulations and the rules adopted pursuant to these Regulations shall prevail over any other regulatory provision or rule that is not in harmony with these Regulations, except for the provisions of Law No. 26-2017, as amended, known as the "Fiscal Plan Compliance Law".

Article 6070.71-1. - Separability.

If any section, paragraph, article, chapter, clause, provision, sentence, letter, sentence, word, paragraph, section, subchapter, subparagraph, subsection, title, or part of these Regulations were to be annulled or declared unconstitutional, the resolution, ruling, or judgment to that effect issued shall not affect, prejudice, or invalidate the remainder of these Regulations. The effect of the judgment shall be limited to the paragraph, article, chapter, clause, provision, phrase, letter, sentence, word, paragraph, section, subchapter, subparagraph, subsection, title, or part of these Rules of Procedure that has thus been annulled or declared unconstitutional.

If the application to a Person or a circumstance of any paragraph, article, chapter, clause, provision, phrase, letter, sentence, word, paragraph, section, subchapter, subparagraph, subsection, title, or part of these Regulations is invalidated or declared unconstitutional, the resolution, ruling, or judgment handed down shall not affect or invalidate the application of the remainder of these Regulations to that Person or circumstance to which it may validly be applied.

It is the express and unequivocal will of these Regulations that the Courts of Puerto Rico enforce the provisions and application of these Regulations to the fullest extent possible, even if they are rendered ineffective, annulled, invalidated, impaired or declared unconstitutional in any way, or even if they are rendered ineffective, invalidated or declared unconstitutional in their application to any Person or circumstance.

Article 6070.72-1. - Effective.

These Regulations shall become effective immediately upon their approval, and shall be effective as of July 1, 2019 for any Eligible Business, Exempt Business or Investor that has commenced operations under the Code.
EFFECTIVE DATE: These Regulations shall become effective thirty (30) days after their filing with the Department of State, in accordance with the provisions of Act No. 38-2017, as amended, known as the "Government of Puerto Rico Uniform Administrative Procedure Act.

Approved in San Juan, Puerto Rico, on______________________________ __________.

Secretary
Department of Economic Development and
Puerto Rico Trade

Submitted to the State Department on______________________________ __________.