PUERTO RICO’S STUNNING NEW TAX ADVANTAGES
A Unique Opportunity for Americans

By Nick Giambruno, Alex Daley, and Louis James
Old San Juan—the 500-year-old historic center of Puerto Rico.

The facts in this report have been verified by Pietrantoni Méndez & Alvarez (PMA) LLC, a prominent law office in Puerto Rico.
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Puerto Rico: Lower Taxes Without Leaving America Behind

Reaching the opportunities that lie beyond the borders of your home country is seldom simple, but it can be worth the effort. In fact, moving at least part of your financial life away from your home government and its eagerness to share in what you’re accumulating is one of the most liberating steps you’ll ever take.

Depending on what you do for a living, you may be able to take your personal earning power to friendlier shores along with the earning power of your nest egg. This can mean a dramatically improved lifestyle, since less of your income—from running a business, for instance—is lost to taxing authorities and more is left for you to spend or save as you please.

High earners in Canada, Europe, and parts of Asia and South America face tax rates of 50% or even 60%. By moving to a jurisdiction with a lower tax rate—say, 10%—they rescue a big chunk of income from the tax collector. For a $250,000 earner, that drop in tax rates would free up an additional $100,000 annually. That’s an 80% increase in after-tax income.

For most residents of the modern world, making such a jump is possible only if it won’t interfere with earning the income they are trying to protect. That’s why so many of the people who’ve made their way to far-flung destinations to lessen their tax burden (and enjoy a pleasanter life) are investors or are individuals who work in do-it-anywhere fields such as software development, investment management, and Internet-based businesses.

For some, it’s as straightforward as hopping on a plane and working from where the plane lands. But not if you’re an American.

American (Tax) Exceptionalism

US citizens and permanent residents have only limited opportunities for fleeing the tax collector. Their homeland is the only one in the world—bar the tiny, impoverished African country of Eritrea—that taxes its nonresident citizens on all their income, regardless of where they earn it.

For this reason, an American who moves to a zero-tax jurisdiction like Dubai, for example, still pays a full US tax bill. A Canadian expat working in Dubai would have no income tax bill at all.

The US does exclude $99,200 of foreign earned income (salary, wages, etc.) from taxation if certain conditions are met, but there is no break for an overseas American’s investment income.
Enforcement activity makes the burden even worse. The US government puts immense pressure on foreign banks and their governments to help ensure that no dollar of any American’s income escapes the notice of the IRS. To avoid the cost of demonstrating detailed compliance with the regulations forced on any bank that wants access to US financial markets, most foreign banks simply show US citizens the “unwelcome mat.”

Americans are in the uniquely unfavorable position of living under the world’s most sweeping tax regime and suffering a government that can effectively enforce that regime anywhere in the world. For many, US tax rules are a tight and choking leash. It’s no wonder that record numbers of Americans are giving up their citizenship to seek freedom elsewhere.

But breaking the tax leash by renouncing US citizenship is a big step, and it can carry a high price. You may have to pay a hefty “exit tax” on the way out the door. And you can’t be sure that renunciation won’t make visiting the US difficult, which rules it out for most people with friends or extensive family back in the States.

The Florida Option

For years, individual US states have exploited tax fatigue to attract those looking to save a few dollars by moving to a place that doesn’t treat them like a milk cow. The offer is simple: at no more than modest cost or inconvenience, you can move to our state and protect up to 10% or more of your income from the tax collector. The income-tax-free states of Alaska, Florida, Nevada, South Dakota, Texas, Washington, and Wyoming all make that offer. Nevada has drawn thousands of Californians to Incline Village, Nevada’s interstate tax haven on Lake Tahoe.

Even more conspicuous is Florida, with zero state income tax plus property tax rates that decline with the age of the owner. As a bonus, Florida throws in exceptional asset-protection laws. For decades, it has attracted wealthy retirees who grew their nest eggs in New York, New Jersey, or other high-tax states and want to enjoy their money in a sunnier climate.

Florida presented what was until recently the best balance of lower taxes and a tropical lifestyle available to Americans who didn’t want to give up their citizenship.

Your alternatives just got better. There is a new option that out-Floridas Florida, and by a big margin.
Puerto Rico—More than “The Better Florida”

If Florida sounds attractive, head in that direction. But if you’re an investor or the owner of the right kind of service business, keep going until you get to Puerto Rico.

In 2012, to spur job growth and economic activity in general, the Commonwealth of Puerto Rico introduced extraordinary tax incentives for incoming residents and service businesses.

Puerto Rico is no novice at sculpting tax rules to attract foreign investors and expatriates. For decades the country has offered tax incentives to many types of businesses, especially manufacturers, which is why today you’ll find plants belonging to Praxair, Merck, Pfizer, and other big names dotting the island’s lush interior.

Those incentives worked well to bring companies seeking low-wage, low-skill labor—businesses that could help the economy move forward... but only so far. Eventually the door to foreign competition opened by NAFTA and other regulatory changes eroded Puerto Rico’s advantage over Mexico in exporting to the US.

So the Commonwealth government recently went a step further and passed tax incentives to in part make up for the dwindling return from previous tax incentive programs, culminating with the bell-ringing changes enacted in 2012.

That latest round of legislation focused on three economic trends that had been passing Puerto Rico by, even though the island was well qualified to ride them:

1. The flow of investors and money managers from all over the world to stable, low-tax jurisdictions, such as Singapore, Hong Kong, and the Cayman Islands;
2. The boom in call centers and technical support facilities in low-cost, English-speaking countries, especially India and the Philippines; and
3. The aforementioned migration of America’s and Europe’s wealthier retirees and investors to warm, comfortable places.

As Puerto Rico aims to ride these trends, it has an advantage few competitors can hope to match.

Puerto Rico is a territorial possession of the US. Under the US Internal Revenue Code, an American who becomes a resident of Puerto Rico begins a second tax life: all the income the person earns from Puerto Rican sources is subject to Puerto Rican income tax only, not to US income tax.
No Need to Leave

It’s an upside-down situation. Being liable for tax on their worldwide income, Americans are effectively barred from accepting any low-tax offer made by an independent foreign country… but they’re free to accept any low-tax offer made by Puerto Rico.

Although it is not a state and is excepted out of many US laws, Puerto Rico is part of the US.

- Puerto Ricans are US citizens.
- The US dollar is legal tender and the only currency in common use.
- No passport or visa is required to travel to Puerto Rico from the US. It’s as simple as any domestic flight. It is a domestic flight—just a boarding pass and driver’s license (or other accepted ID) will get you there.
- No special permit or waiver is required for an American to work in Puerto Rico. You are as eligible as anyone born there to buy real estate, register to vote, or get a driver’s license.
- Moving to Puerto Rico is little different from moving to another state, except that the primary language is Spanish.

Puerto Ricans participate in (US) Social Security and Medicare, and thus are subject to payroll taxes. However, no resident of Puerto Rico is subject to US income tax on what he earns from Puerto Rican sources. Instead, a resident of Puerto Rico is subject to Puerto Rican income tax, which generally is levied at rates similar to US federal income tax rates—but with certain critical exceptions that are the focus of this report.

Specifically, for Puerto Rican residents and businesses that qualify—mostly expatriates from the US mainland or their enterprises—the recent Act 22 and Act 20 provide for a zero tax rate on capital gains and certain interest and dividends earned by individuals, and for single-digit tax rates on qualifying service income earned by corporations operating in Puerto Rico.

When we learned of the new tax laws, we were excited but skeptical. It sounded just too good to be true... or one of those things (like US Virgin Islands partnerships) whose complexity requires paying an army of lawyers. However, our investigation found that the apparent tax advantages are real and that for many Americans, including individuals operating on a modest scale, they are a huge opportunity.

Obtaining the benefits offered by Puerto Rico and allowed by the US Internal Revenue Code is a moderately complex matter, and it’s not a solution that will work for everyone.
Also, it’s not *just* a tax matter, since it would require you to become a resident of the island. But if you would be comfortable living there and you or your business is able to qualify, the rewards could be life-changing.

Bottom line: if you’re an American with significant investment income or have a service business that can be relocated, the Puerto Rico option might be for you. The starting point is to get acquainted with the place.
Not Quite a State, Not Quite a Foreign Country—
A Modern History of Puerto Rico

Puerto Rico is 100 miles long (east to west) and 35 miles wide (north to south), about midway between the size of Rhode Island and Connecticut. It’s located about 1,000 miles southeast of Miami, from which it can be reached by a 2.5-hour flight (dozens of flights per day to Miami and New York City, and dozens more to other US destinations). The island has a tropical climate and is regularly visited by Atlantic hurricanes. Between the closest points, it’s 230 miles east of the Dominican Republic.

Christopher Columbus claimed the island for Spain in 1493 after his second voyage to the Americas. In 1898, in the aftermath of the Spanish-American War, the US took control of the island and embraced it as a somewhat self-governing colony. It had its own judicial system, and the public elected a local legislature, but its governor was appointed by the US president.

Today Puerto Rico is included in the US court system, with its own US Federal District Court. This allows much higher confidence that contracts and property rights will be respected than is possible in any Latin American county.

Despite the linkage to the US legal system, tax administration and the rest of the bureaucracy on the island operate at a Latin American tempo. Everything official takes longer, sometimes painfully longer, than in Western Europe or the US. Everything from opening a checking account to getting a driver’s license has the potential to turn into a
time-consuming ordeal. We recommend taking a good book with you whenever you set off to fill out forms.

**Separate Tax System**

In many respects, Puerto Rico’s formal institutions emulate those on the US mainland, yet there is one notable exception: Puerto Rico has its own tax system, which is accommodated by provisions of US law ([48 U.S.C. § 734](#)).

Under [Section 933](#) of the US Internal Revenue Code, income derived from sources within Puerto Rico by an individual who is resident in Puerto Rico for the year is exempt from US income tax. This is the crucial provision that allows mainland Americans who become Puerto Rican residents to benefit from the island’s new tax laws.

As a consequence of Section 933, a US citizen who is resident in Puerto Rico is taxable by the US only on his income from sources outside of Puerto Rico. If he derives all his income from Puerto Rican sources, he doesn’t even need to file a US tax return.

For many years, the Section 933 exemption meant little to a US mainlander. Tax rules and rates in Puerto Rico were close to those in the US, so relocating to Puerto Rico afforded no real benefit.

Now the benefit can be enormous, since the Puerto Rican government has adopted ultra-low tax rates for newly arriving investors and businesses that perform services locally for customers located outside of Puerto Rico.

**With Section 933’s exemption, Puerto Rico realized that it had a tool no other jurisdiction could match.**

Section 933 enables the government of Puerto Rico to offer Americans any benefit on locally generated income that low-tax countries offer to anyone who is not an American. The passage of Acts 22 and 20, which reduced taxes for incoming investors and businesses respectively, was an exercise of that ability.

*Anyone who relocates to Puerto Rico can apply for the tax shelter of Acts 22 and 20—including mainland US citizens, who can find similar benefits nowhere else in the world.*
The Economy

Puerto Rico’s annual gross domestic product is roughly $100 billion, consisting primarily of manufacturing (chiefly pharmaceuticals and textiles) and services (tourism and finance). While the per-capita income is low by mainland US standards, for the Caribbean area, it’s near the top.

<table>
<thead>
<tr>
<th>COUNTRY/TERRITORY</th>
<th>GNI PER CAPITA (2012)</th>
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<tbody>
<tr>
<td>Bahamas</td>
<td>$21,280</td>
</tr>
<tr>
<td>Puerto Rico</td>
<td>$18,000</td>
</tr>
<tr>
<td>Trinidad and Tobogo</td>
<td>$14,400</td>
</tr>
<tr>
<td>St Kitts and Nevis</td>
<td>$13,330</td>
</tr>
<tr>
<td>Antigua</td>
<td>$12,640</td>
</tr>
<tr>
<td>Suriname</td>
<td>$8,480</td>
</tr>
<tr>
<td>Grenada</td>
<td>$7,110</td>
</tr>
<tr>
<td>St Lucia</td>
<td>$6,530</td>
</tr>
<tr>
<td>Dominica</td>
<td>$6,460</td>
</tr>
<tr>
<td>St Vincent and the Grenadines</td>
<td>$6,380</td>
</tr>
<tr>
<td>Jamaica</td>
<td>$5,140</td>
</tr>
<tr>
<td>Belize</td>
<td>$4,180</td>
</tr>
<tr>
<td>Guyana</td>
<td>$3,410</td>
</tr>
</tbody>
</table>

Although Puerto Rico has one of the most vibrant economies in the region, it still has problems. In fact, it’s Puerto Rico’s problems that gave rise to the new tax incentives.

Crime

Members of Casey Research who’ve made the move to Puerto Rico can attest that the first reaction of friends and relatives was concern about high crime rates. This is not surprising, given the cultural stereotypes, political history, and recent mainstream news coverage.

Puerto Rico’s official murder rate is 26 per 100,000 residents, which is about six times the US average. While that’s not a fetching invitation for a midnight stroll through a park in San Juan, it is 50% below Washington DC’s 20-year average and less than half Detroit’s recent rate of 55 per 100,000 residents. In fact, it puts Puerto Rico about halfway between St. Louis and Memphis on the FBI’s 2012 uniform crime statistics. By
overall violent crime numbers, Puerto Rico doesn’t look at all like a dangerous place. If it were listed as a state, it would rank 19th for safety.

One Casey Research pioneer in Puerto Rico remarked, “Saying you won’t move to Puerto Rico because of crime is like saying you won’t move to Michigan because of Detroit. Or Maryland because of DC. Cities have crime, especially cities with high unemployment.”

We believe that’s a reasonable perspective, as 2.7 million of the commonwealth’s 3.7 million people live in the “San Juan-Carolina-Caguas, Puerto Rico Metropolitan Statistical Area.” It’s a dense, urban area, and it deserves the caveats that apply to most cities: there’s no better food, nightlife, shopping, etc. on the island, but those benefits come with big-city negatives. And if those negatives are unacceptable to you, there are plenty of living options outside of San Juan that are very safe and are attractive for ex-mainlanders.

**Government Finances and Debt**

The financial condition of the Puerto Rican government is terrible. Public debt has outpaced economic growth for years, and Puerto Rican government bonds were downgraded to junk status early in 2014.

However, the current administration is serious about mending Puerto Rico’s public finances and has had some degree of success. The government is still running a deficit, but for the current fiscal year, it’s down to $750 million, the smallest amount of red ink since 2009. That said, they’re close to running out of borrowing power.

How exactly the situation will play out is unknown.

To escape its debt burden, Puerto Rico must either grow its economy and government revenues, cut spending, or default. A default would come without the programmed tidiness of a US bankruptcy proceeding, since, unlike Detroit, the Commonwealth is not eligible for the protections of the US Bankruptcy Code.

Puerto Rico’s predicament is similar to that of Greece: it borrowed in a currency it doesn’t control. Just as Greece can’t print euros to pay its debt, Puerto Rico can’t print dollars. However, rescue dynamics may work for Puerto Rico in much the same way as they aided Greece.

The EU came to the aid of Greece because it feared a default would cast a long shadow of doubt on the euro. If need be, the US may come to the aid of Puerto Rico to protect US banks that hold its bonds and to avoid the cost of added unemployment insurance claims—and to placate the millions of Puerto Ricans who live and vote in the US and for whom rescuing Puerto Rico would be a high priority.
Unemployment and Economic Growth

Crime and deficits both reflect broader economic factors. Economic growth, if it's strong enough, will hold many government and social problems at bay. An employed populace generally means a level of crime that is tolerable.

Puerto Rico has been stagnating in economic recession for several years. Even by the official statistics, the unemployment rate has exceeded 15%. Weakness in the tourism industry (an echo of weakness in the US economy) is a contributing factor. Another source of Puerto Rico’s economic troubles was the expiration of previous tax incentives for manufacturers doing business on the island, which sent many companies looking elsewhere.

Now the Puerto Rican government is aiming to encourage economic growth in neglected industries. To compete more effectively for new business, they passed two critical laws at the end of 2012.

With the new laws, Puerto Rico is seeking to emulate the success of Singapore in attracting investors with favorable tax rates. They also would like to replicate India’s success in generating billions of dollars from their relatively unskilled but English-speaking labor force in service-related fields, such as document processing and call centers. Puerto Rican officials believe that because they: (i) have a deep pool of English-speaking residents (English is taught in all Puerto Rican schools); (ii) are closely connected to US institutions; and (iii) are geographically close to the US (in a time zone just one hour ahead of Eastern Time, except during Daylight Saving Time, when the time is identical to Eastern Time), they are well-positioned to provide services to US customers. Proximity also positions Puerto Rico as a convenient home for investors who largely trade in US markets and as a home base for investment managers who do the same for US clients.
The New Laws

To drive this growth, two laws were passed that give significant breaks to new residents of Puerto Rico or for businesses creating new job growth in knowledge-worker sectors.

The two laws are The Individual Investors Act (also known as Act 22) and the Export Services Act (Act 20). In short, they eliminate Puerto Rican tax on investment income earned by new residents (you cannot qualify if you have been a resident of Puerto Rico between 1997 and 2012) and reduce the effective tax rate on corporate earnings from exporting services to 4% (or 3% in certain situations).

The tax benefits under the two Acts are not automatic; you must apply for them. If granted, the benefits are valid for 20 years, though Act 22 has an untested provision for a ten-year extension. Act 20 has a sunset provision that goes into effect on December 31, 2020. This means that a company has until the year 2020 to obtain Act 20 status, the tax benefits of which would then last 20 years, or until 2040.

The benefits of Act 22 and Act 20 come to you as a legally binding private decree from the Puerto Rican government, which should protect you from changes in the law. However, the private decree allows the Puerto Rican government broad latitude to revoke the benefits of selected individuals or companies whenever it deems it no longer “in the best interests of Puerto Rico” for the benefits to continue. But, provided that you respect the letter and spirit of your decree, we think such a revocation would be unlikely, for reasons discussed later.

Puerto Rico has crafted Acts 22 and 20 well for enforcement and stability and has good reasons for keeping them on the books. But what about the US? Couldn’t the US government put a stop to the tax benefits?

For Americans who wish to take advantage of Act 22 or Act 20, the answer is, “Yes,” of course. But we believe interference from the US is highly unlikely.

The US government always has the power to pressure the Puerto Rican government to do anything, including rolling back Acts 22 and 20. Or the US Congress could change Internal Revenue Code Section 933—the key provision that protects Puerto Rican residents from US income tax on Puerto Rican-sourced income. But why would politicians in Washington do either of those things?

By US budget standards, the revenue lost by the US Treasury won’t amount to much, since there is a high bar for garnering the benefits—becoming a bona fide resident of the island. There is little opportunity for gaining those benefits without really contributing to the Puerto Rican economy. The US government understands that
Puerto Rico desperately needs an economic boost to reduce unemployment and help the government manage its enormous debt—a debt Congress doesn’t want to get stuck with in a bailout.

Statehood for Puerto Rico also would extinguish the Act 22 and Act 20 benefits. But the statehood issue has languished for decades; it’s a question on which Puerto Ricans themselves are deeply divided. While some want Puerto Rico to become the 51st state, just as many prefer the commonwealth status quo, and a few favor complete independence. There is no consensus—and no real incentive for the US to push the issue.

Still, it would be going too far to say there is no possibility that Act 22 and Act 20 might somehow go away. But weigh the odds.

The basic reality is that the island is unlikely to draw enough attention to its tax incentives to make it worth the trouble for US legislators to interfere, and the cost of any interference might come back to Congress in the form of an unpopular bailout. So the recently enacted incentives are likely to stick for a whole lot longer.

Let’s get to the finer details of the two laws.

The Individual Investors Act (Act 22)

Puerto Rico’s objective in enacting Act 22 is to attract individual investors to live and spend on the island. The bait is a zero tax rate on investment income.

Act 22 is pretty straightforward. It **completely exempts** new residents from Puerto Rican taxation on dividends, interest, and capital gains that accrue after becoming a resident of Puerto Rico. Given that Puerto Rican residents are also exempt from US income tax on Puerto Rican-sourced income, Act 22 means tax freedom for individual Americans who can arrange for their investment income to arise from Puerto Rican sources. Doing so doesn’t require as much magic as you might think.
General Rules for Determining Source of Income

<table>
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<tr>
<th>Item of Income</th>
<th>Factor Determining Source</th>
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<tbody>
<tr>
<td>Salaries, wages, and other compensation for labor or personal services</td>
<td>Where labor or services performed</td>
</tr>
<tr>
<td>Pensions</td>
<td>Contributions: Where services were performed that earned the pension</td>
</tr>
<tr>
<td></td>
<td>Investment earnings: Where pension trust is located</td>
</tr>
<tr>
<td>Interest</td>
<td>Residence of payer</td>
</tr>
<tr>
<td>Dividends</td>
<td>Where corporation created or organized</td>
</tr>
<tr>
<td>Rents</td>
<td>Location of property</td>
</tr>
<tr>
<td>Royalties:</td>
<td>Location of property</td>
</tr>
<tr>
<td>Natural resources</td>
<td>Where property is used</td>
</tr>
<tr>
<td>Patents, copyrights, etc.</td>
<td></td>
</tr>
<tr>
<td>Sale of business inventory—purchased</td>
<td>Where sold</td>
</tr>
<tr>
<td>Sale of business inventory—produced</td>
<td>Allocation if produced and sold in different locations</td>
</tr>
<tr>
<td>Sale of real property</td>
<td>Location of property</td>
</tr>
<tr>
<td>Sale of personal property</td>
<td>Seller’s tax home</td>
</tr>
<tr>
<td>Sale of natural resources</td>
<td>Allocation based on fair market value of product at export terminal</td>
</tr>
</tbody>
</table>

Source: IRS

CAPITAL GAINS

Capital gains are where the main benefit of Act 22 lies.

The country source for capital gains on the sale of securities and other personal property is your place of residence, so gains on stocks, bonds, or other personal property, like precious metals, that you recognize while a resident of Puerto Rico are treated as Puerto Rican-sourced income and thus eligible for exemption under Act 22.

This means that even if you keep your E-Trade, Fidelity, or other US brokerage account, while you are a bona fide Puerto Rican resident, capital gains earned in those accounts count as Puerto Rico-sourced income and can qualify for Act 22 treatment.

Capital gains from any appreciation that accrued before you moved to Puerto Rico is treated differently. Such capital gain is taxed by Puerto Rico at the effective capital gain tax rate at the time it is realized (currently 10%) during the first 10 years of residency and at 5% thereafter, and it is also taxed by the US. The US, with a 20% top rate on capital gains (28% for precious metals), would give you a credit for the Puerto Rican tax,
so the effective rate of tax would be the higher tax rate, i.e., moving to Puerto Rico does nothing to shelter previous appreciation from tax.

**SPLITTING THE PROFITS**

Determining how to split a capital gain between appreciation that happened before you moved to Puerto Rico and appreciation that happened while you were there depends on the type of property.

For investments that are traded in a public market, such as listed stocks and precious metals, you start by noting the investment’s price on the day of your move to the island. All profit up to that price is considered to have been earned before your move (and is taxable by Puerto Rico and the US). The rest of the profit is considered to have accrued while you were in Puerto Rico (and is taxed by no one).

For example, suppose Charlie, a mainland US investor, purchased stock for $40 on January 2, 2010. Then he moves to Puerto Rico on January 2, 2014, on which day the stock is worth $100.

Later, on January 2, 2016, Charlie sells the stock for $200, for a capital gain of $160 ($60 of which accrued prior to moving to Puerto Rico and $100 of which accrued after moving).

- The $60 capital gain that accrued between January 2, 2010 and January 2, 2014 will be taxed by Puerto Rico at 10% and by the US (under current rules, at 20%). Because the US will allow Charlie a credit for the Puerto Rican tax, the effective total tax rate is 20%, just as though Charlie had stayed on the mainland.

- The $100 capital gain that accrued from January 2, 2014 to January 2, 2016 will be exempt from US tax, since Charlie was a Puerto Rican resident for all of that period. It also will be exempt from Puerto Rican taxes under Act 22. Charlie keeps the entire $100.

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<tbody>
<tr>
<td>Puerto Rico capital gain</td>
<td>$0</td>
<td>$0</td>
<td>$100</td>
</tr>
<tr>
<td>Pre-Puerto Rico capital gain</td>
<td>$0</td>
<td>$60</td>
<td>$60</td>
</tr>
</tbody>
</table>
For non-marketable stocks and other interests in private companies, there is no clear and simple way to establish the value as of the day you become a Puerto Rican resident. To deal with that difficulty, the rules pretend that appreciation in a private security you took with you to Puerto Rico happened evenly day by day from the time you bought it while living on the mainland to the time you sold it while living in Puerto Rico.

For example, if you bought stock in your brother-in-law’s car-wash corporation 100 days before you moved and sold it at a profit 200 days after you arrived in Puerto Rico, one-third of the gain would be treated as having accrued while you were still on the mainland (fully taxable), and two-thirds would be treated as having accrued while you were a Puerto Rican resident (tax free).

### DIVIDENDS AND INTEREST

The country source of interest and dividends is the tax residence of the **payer**. So the only way mainland Americans can benefit from Act 22 with regard to interest or dividends is if the payer’s tax residence is Puerto Rico, which would make the income’s source Puerto Rico. This has some appeal, but it’s limited.

If you hold bank CDs as part of your portfolio, you could replace them with CDs of Puerto Rican banks (whose deposits are covered by FDIC insurance) to produce income that is completely free of tax.

### A NOTE ON RETIREMENT INCOME

Withdrawals from an IRA, 401(k), or other US tax-deferred retirement account would not be covered by Act 22. So moving to the island won’t lessen the tax on withdrawals. The situation is the same with Social Security and other pension income.

Puerto Rico has its own IRA system, with both traditional and Roth plans, but it is distinct from the US IRA system. Income from employment in Puerto Rico cannot be contributed to a US IRA and vice versa.

For a resident of Puerto Rico, a distribution from a US Roth IRA would be taxable by
the Puerto Rican government. That is, unless the US Roth IRA is liquidated and the proceeds are used to contribute to a Puerto Rican Roth IRA (subject to contribution limits, which are similar to the US). The opposite is true as well.

A distribution from a US traditional IRA to a Puerto Rico resident would be taxable by both the US and the Puerto Rican government, unless it is liquidated and the proceeds are used to contribute (subject to contribution limits) to a Puerto Rican traditional IRA, in which case the distribution would only be taxable by the Puerto Rican government. Again, the opposite scenario is true as well. For taxable distributions, the availability of a credit from either government for tax paid to the other prevents double taxation, and you end up effectively only paying the higher rate.

Despite the many similarities to a US IRA (more details here), a critical difference makes a Puerto Rican IRA considerably less useful: Puerto Rican IRAs allow very little investment freedom—they must invest at least 34% of contributions into obligations of the Commonwealth of Puerto Rico.

Assuming that your investments are covered by Act 22 and that your business is covered by Act 20, there would be little current advantage in funding a Puerto Rican IRA.

We see no advantage to pouring your US IRA into a Puerto Rican IRA.

APPLYING FOR ACT 22

To obtain the benefits of Act 22, you must submit an application to the Office of Industrial Tax Exemption (OITE) of Puerto Rico at the Department of Economic Development and Commerce. The actual application can be found by clicking here (for reference purposes only, as it may have been superseded after the publication of this report).

The application asks about your net worth, investment activity, residence history and criminal history, and requires a background check. Expect a decision on the application to take at least a month; it may take longer if there is anything about you that is especially interesting. Note that the OITE does not routinely acknowledge receipt of Act 22 applications, but it will give you your case number if you call and ask for it. Allow time for delivery and file creation—about 30 calendar days. Some OITE personnel speak English well, but most are more fluent in Spanish.

Even though the application is simple, there may be follow-up questions, especially if your case is anything other than straightforward. The safest approach—especially if you don't speak Spanish or if your case comes with nuances that may need careful explanation or interpretation—is to get help from a Puerto Rican attorney or tax accountant who is familiar with the process. Some members of the Casey team have
applied for Act 22 status themselves and have succeeded without hiring help. Others have succeeded using local attorneys.

**ACT 22 CONCLUSIONS**

Act 22 is particularly attractive for individuals who expect to generate significant capital gains. The combination of Act 22 with Section 933 of the US Internal Revenue Code gives a mainland American who moves to Puerto Rico a door to escape taxation on certain investment income that otherwise could be opened only by renunciation.

Act 22 allows a migrating American investor to **eliminate taxes** on:

- Capital gains on securities (stocks, bonds, and derivatives) and other personal property (e.g., precious metals) that accrue after the move to Puerto Rico
- The portion of capital gains on securities in private companies allocated to the period during which the investor is resident in Puerto Rico
- Interest and dividends from Puerto Rican sources… including, most notably, dividends from Puerto Rican corporations that benefit from Act 22’s companion law, Act 20.

**Export Services Act (Act 20)**

The Puerto Rican government has seen India’s success in generating billions of dollars and thousands of jobs for its relatively unskilled labor force in service-related fields, and without the environmental costs that manufacturing can bring.

Puerto Rican politicians have also witnessed the influx of investment firms to low-tax jurisdictions with stable financial systems, like Hong Kong and Singapore, as well as Panama, the Cayman Islands, and Bermuda.

Their response was Act 20.

Act 20 limits the tax rate on corporate earnings from exporting services from Puerto Rico—that is to say, performing services (not manufacturing a product) in Puerto Rico for clients outside of Puerto Rico—to just 4%.

Under the US Internal Revenue Code, the country source of service income is the jurisdiction where the service is performed. The location of the client or other buyer of the service doesn’t matter. Thus, income earned by performing a service **entirely** in Puerto Rico is Puerto Rico-sourced income, even if the customer is sitting in Chicago. So under US Internal Revenue Code Section 933 and Section 861, if the person...
performing the service (whether an individual or a corporation) is a Puerto Rican resident working in Puerto Rico, the income is exempt from US tax. Puerto Rican corporations are considered foreign corporations for US tax purposes.

The “entirely” is a critical point. If the Puerto Rican resident (whether an individual or a company) that performs the service maintains an office or agent in the US that is involved in performing the service, the income will be taxable by the US. So to benefit from Act 20, your business must avoid doing anything in the US that contributes to producing the service.

That’s a tax rule that tends to invite arguments. Generally speaking, a sales meeting in the US with a customer or potential customer would not drag the service income back into the US, the logic being that selling a service is not an element in performing the service. Fixing things or giving training related to the service from the US probably would make the income taxable in the US. Maintaining a sales office in the US is problematic unless it demonstrably restricts itself to selling only.

Income from services that can be rendered entirely from Puerto Rico—such as computer programming, graphic design, document processing, call center work, asset management or financial planning, or any consulting that doesn’t require a US presence—would clearly qualify as Puerto Rico-sourced income.

Additionally, income from trading stocks, other securities, or commodities while you are a resident of Puerto Rico—for your own account or others—is Puerto Rico-sourced income.

For qualifying Puerto Rican corporations, tax on services performed in Puerto Rico for non-Puerto Rican customers is only 4% (collected as withholding on dividends paid to shareholders). A shareholder is exempt from Puerto Rican personal income tax on the dividends he receives, and under IRC Section 933 is exempt from US personal income tax. So the maximum total tax rate on the service income is... 4%.

Apart from the 4% withholding, there is no Puerto Rican tax on dividends paid to nonresident shareholders. So a US shareholder who stayed on the mainland and who would be paying US tax on the dividends would not be disadvantaged by the business being in Puerto Rico, even though the Puerto Rican resident shareholders could still benefit from the combination of Act 22 and Act 20.

Act 20 has been particularly popular with hedge fund and private equity managers who relocate to Puerto Rico and earn fees for services to US clients. But it is certainly not just hedge funds that can benefit.
The following is a non-comprehensive list of services that Act 20 specifically defines as an “eligible business”:

- Research and development
- Advertising and public relations
- Consulting
- Commercial art and graphics services
- Architectural and engineering services
- Professional services (such as legal, tax, and accounting services)
- Data processing
- Computer programming
- Call centers
- Remote medical services
- Educational and training services
- Shared service centers
- Investment banking and other financial services
- Call centers
- Remote medical services
- Educational and training services
- Shared service centers
- Investment banking and other financial services
- Research and development
- Advertising and public relations
- Consulting
- Commercial art and graphics services
- Architectural and engineering services
- Professional services (such as legal, tax, and accounting services)
- Call centers
- Remote medical services
- Educational and training services
- Shared service centers
- Investment banking and other financial services

Act 20 is also a powerful incentive for American entrepreneurs to set up and grow a service-related business in Puerto Rico. And the island is open for business. The World Bank ranks Puerto Rico as the most business-friendly jurisdiction (relatively few and simple regulations, good protection of property rights) in Latin America.

Other important benefits of Act 20:

- The withholding tax rate may drop from 4% to 3% if more than 90% of a company’s gross income is derived from exporting services and the Puerto Rican government deems such services “strategic,” which generally means that rendering such services from Puerto Rico is in “the Island’s best economic and social interest.”

- Some corporations may receive a 100% property tax exemption for the initial five years of operation. After the five-year period, a 90% tax exemption will apply for the remainder of the Act 20 decree. This benefit is mostly granted only to call centers, shared service centers, or companies that move their headquarters to Puerto Rico.

**APPLYING FOR ACT 20**

A Puerto Rican corporation can apply for Act 20 status immediately after it has been formed. Applications are made to the Office of Industrial Tax Exemption of Puerto Rico at the Department of Economic Development and Commerce. The actual application for Act 20 can be found by clicking here (again, this is for reference only).

Submitting the application is only the start of a process. The OITE will perform conventional due diligence on the company and its management. The government has the sole discretion to grant or withhold Act 20 status; in principle, the decision depends on whether the proposed business involves an “eligible business” (see above) or if the company appears to be “in the best interests of Puerto Rico.”
“The best interests of Puerto Rico” is a flexible concept, and the direction of the flexing will depend on the politicians in power from time to time. Needless to say, at any point the government can change the rules for new applicants.

At the time of publishing, the written and unwritten requirements for a successful Act 20 application are:

- Answering detailed questions about the nature of your business
- Providing basic revenue and profit growth projections for three years
- Generating at least three payroll jobs in Puerto Rico, with plans for growth beyond that being a major consideration

For someone running a particularly small shop, like a single-person consulting practice, the unwritten requirement for the business to generate at least three jobs may be a serious barrier. However, a relocated owner counts as one employee if he pays himself a reasonable salary ($60,000 to $75,000 generally would be enough). A spouse can be on the payroll as well, at a reasonable salary, and count as employee number two. And the third man? That would be a local who might make himself useful as a janitor, security guard, receptionist, driver, or some such work.

In any case, notice that any need to recast yourself as an employee cuts into the overall tax advantage we’ve been discussing, since your salary would be subject to Puerto Rican income tax as well as payroll taxes, Social Security, and Medicare. The same would apply to salary paid to a spouse and to your third employee. Add up the three-person payroll, and you find that Act 20 benefits don’t really start until the income of your service business passes $150,000 or so.

For significant earners or established businesses that could usefully hire locally, the tax benefits can still be substantial. If you are a small startup looking to grow, sharing your plans for hiring during the three-year period the government is thinking about should get you past having to satisfy the employment requirement on day one. Especially if those hiring plans include the local labor force, which has a supply of not just low-skilled workers, but also capable, English-speaking professionals in diverse fields. But those projections must be made in good faith, and it would be a good idea to include information on your financing to back up your projections.

What about a sole proprietorship? Given the three-employee rule, your prospects are limited but not quite nil. We’ve inquired about the possibilities for an individual whose work has no need for local assistance, such as a speaker, writer, or highly specialized consultant. The OITE will consider an application from such a person, but so far it has
provided no encouragement or guidance.

Decisions by the Puerto Rican government on whether to grant Act 20 benefits generally take three or four months, depending on the size and complexity of the business proposed.

ANNUAL REVIEWS

The Puerto Rican government will also conduct an annual review to determine whether your business is meeting its growth targets and whether it is still “in the best interests of Puerto Rico.” While the Act 20 benefits are enshrined in a legally binding private decree, the decree provides for the Puerto Rican authorities to terminate the arrangement prospectively (which most likely would be as of the start of the following year). Our reading is that the Puerto Rican government would be reluctant to revoke the Act 20 status of a legitimate business that is employing people who otherwise might be jobless. Nonetheless, a termination would be a serious blow for someone who has gone to the trouble and expense of relocating his business to Puerto Rico, so it is a risk to reflect on before moving.

RELOCATING EXISTING SERVICE BUSINESS TO PUERTO RICO

The tidiest approach to moving an existing business to Puerto Rico is to take the whole thing with you, including all the employees who like sunshine. That will leave you with no doubt that the services you generate in Puerto Rico are generated there in their entirety, so that the income is not subject to US tax.

Second best (for tax clarity) is to relocate the production of distinct services to Puerto Rico and leave behind, in a separate US company, any activities that are not practical to move. That would mean billing clients separately for services from the US company and for services from the Puerto Rican company.

The messiest strategy for a partial move is for the US company to buy or sell services from or to the Puerto Rican company. It’s messy because it takes you into the highly technical tax rules for “transfer pricing,” and highly technical tax rules make for highly expensive legal bills. This approach is practical only for a large business.
ACT 20 CONCLUSIONS

Act 20 offers enormous tax benefits for owners of service-related business that relocate to Puerto Rico:

- A top 4% withholding tax rate on earning from exported services for 20 years
- No personal income tax on corporate distributions to Puerto Rican residents
- For certain businesses, a 100% property tax exemption for the first five years and a 90% exemption thereafter until expiration of Act 20 decree.

Additional Tax Incentives

We’ve focused on Acts 22 and 20, as they are the newest and most straightforward. But other tax incentives are available in particular circumstances.

Although simpler, Act 20 was modeled on the 2008 Act 73 (The Economic Incentives Act for the Development of Puerto Rico). The 2008 law offers ultra-low tax rates to attract manufacturers to the island. As with Act 20, only certain kinds of businesses can qualify, and the tax benefits are available only case by case, at the discretion of the government. For more information on Act 73, click here.

Another measure, Act 273, provides a single-digit tax rate on the income of “international financial entities,” such as insurers, bank branches, and holding companies. Similar incentives are available for agriculture, film, and hotel development companies. For more information on Act 273, click here.
**Bona Fide Residence—A Must**

The tax benefits offered by most of Puerto Rico’s new laws hinge on being a bona fide resident. These are not benefits you can earn from afar—you have to make the island your primary home.

You can always return to the mainland, of course. But it is worth mentioning that while you’re a bona fide Puerto Rican resident, you won’t be able to vote in a US presidential election. (If that strikes you as a negative, we suggest reading Doug Casey’s top five reasons not to vote.)

If your worldwide gross income is more than $75,000 in the year you become or cease to be a bona fide resident of Puerto Rico, you will be required to file IRS Form 8898.

To be classified as a Puerto Rican resident for US and Puerto Rican tax purposes, you must pass every one of three tests.

1. **Physical Presence Test**—To be a Puerto Rican resident for a given year, you must be physically present in Puerto Rico for at least 183 days of the year. There is no need for the days to be consecutive, and days entering or leaving the island count toward the 183. (There are other, less common ways to meet the physical presence test that apply if you spend a significant portion of the year outside both the US and Puerto Rico.)

2. **Tax Home Test**—You must not have a “tax home” outside of Puerto Rico. Your tax home is your regular or main place of business or employment regardless of where you maintain your family home. If you do not have a regular or main place of business because of the nature of your work, then your tax home is the place where you regularly live. You can pass this test by living in Puerto Rico and doing most of your work there.

3. **Closer Connection Test**—This test entails a collection of factors that would indicate you have a closer connection to Puerto Rico than to the US (or any foreign country). It is a soft-focus judgment made by the IRS (not the Puerto Rican tax authorities), so don’t leave any room for ambiguity. To help pass the closer connection test:
   - Stop receiving mail in the US.
   - Give up nonessential memberships in US organizations.
   - Join something in Puerto Rico.
• Move your checking and credit card accounts to Puerto Rico.

• Register to vote in Puerto Rico. (Don’t vote in your former community.)

• Get a Puerto Rican driver’s license. (Don’t present your old driver’s license for any purpose.)

• Always use your Puerto Rican address on forms and documents.

• Keep all your personal belongs in Puerto Rico. (Say goodbye to that storage unit.)

• Your spouse should live in Puerto Rico.

• Your dependent, minor children ought to go to school in Puerto Rico... unless you’re a divorced parent without primary custody.
Living in Puerto Rico

Since you need to become a bona fide resident of Puerto Rico to benefit from Act 22 and Act 20, the decision is not simply a tax decision, it is a lifestyle decision as well; you’ll want to visit the island before deciding to move there.

It isn’t all sunshine, rainbows, and low taxes, though there are plenty of all three. There also are drawbacks.

Puerto Rico has the highest GNP per capita of any Latin American country. It shares many of the conveniences (and annoyances) of modern life in the US. From Costco, JC Penney, Walmart, McDonald’s, and Burger King up to Cartier, Gucci, and Ruth’s Chris Steakhouse, almost every shopping and chewing option you’d find on the mainland is available. There are beautiful walking neighborhoods and sprawling cement strip malls. There are beautiful beaches and million-dollar mansions just a neighborhood or two away from dense barrios. Puerto Rico has been called “Miami’s poorer cousin.”

In our experience, the people are generally very friendly—reminiscent of traditional southern communities—but they sometimes can be louder and more forward than middle-class Americans are used to. The island’s cultural flavor will be apparent with even a short visit.

Isla Verde
Frequently Asked Questions

Do you need to speak Spanish?

No. English is an official language and is widely understood, especially in the educated and business classes and at tourist destinations. Many expats don’t speak a word of Spanish and get around easily. That said, Spanish is still the primary language; particularly in the hinterland, you can find people who don’t speak English at all.

What about crime?

The crime rate is high in certain areas, but not everywhere.

Consider your preferences in choosing where to live on the island. Do you prefer the action of city living? Or the quiet of the country? Or maybe a gated suburban golf and tennis resort? All are available within an hour or two drive from the main airport in San Juan.

Old San Juan and other parts of the capital are filled with strolling tourists, street performers, and busy restaurants. The police presence is a deterrent to criminals, but the mood is festive, with a Mardi Gras atmosphere.

San Juan is like any major metropolitan area: the bulk of serious crime is drug related and concentrated in the worst neighborhoods. Where it does spill over, the primary targets are the easy marks. Don’t wander the dark streets of any city dressed expensively or looking like a tourist. The precautions you’d take in Miami, Buenos Aires, or Acapulco work here as well.

What about credit card acceptance?

Cash-only businesses are more common in Puerto Rico than on the mainland, but not by a big margin, and most are what you’d expect: fruit stands, street vendors, and the like. Credit cards are accepted almost everywhere you might want to use one, including restaurants, grocery stores, gas stations, and hotels. Two members of the Casey team moved to Puerto Rico in late 2013 and have had no problems with using or protecting credit cards. ATMs are plentiful, including in notably safe locations such as bank lobbies.

Are the police militarized?

Cops are a common sight in the city but are not militarized. Unlike in Mexico, you don’t see vehicles carrying machine gun-toting Robocops. Instead, you’ll see a lot of cops in shorts pedaling bicycles along the beaches and boardwalks and smiling at the tourists. The police we spoke with were polite, professional, and helpful. That said, they do seem
aggressive about traffic and parking tickets—perhaps for the revenue.

**Can I own a gun?**

You can own firearms after you apply for a permit. There are also a lot of restrictions, such as limits on stockpiling ammunition. But if you really want to have a gun in your house or shoot one on a range, you can. For more information on firearm laws in Puerto Rico, [click here](#).

**What’s the level of overall cleanliness?**

The gated communities are pristine, and many of the most popular beaches are well groomed. But overall, expect to see more rubbish than you would in an average American city, and choose where you shop and dine accordingly.

**What’s the quality of medical care?**

Medical care is relatively cheaper than on the mainland, because most of the hospitals are owned and subsidized by the government. The quality of care is acceptable for a broken bone or even a mild heart attack. For more serious problems like cancer, most expats want to visit the mainland.

There are almost no private hospitals. Notably, Puerto Rican residents are exempt from the individual mandate of Obamacare or any other requirement to purchase health insurance.

Health insurance is generally cheaper than on the mainland. Even for “Cadillac” plans—with coverage for US treatment of more serious problems—the price can be 30% to 70% less than in the US. You can find more information about health insurance options at [this website](#).

**How is the climate? Are there hurricanes?**

The temperature is fairly constant year-round, generally 80 to 90 degrees Fahrenheit. It can rain at any time of the year, but especially in the fall. Rainfall comes in punctuated (and often intense) storms, unlike the constant rain of, say, winter in Seattle. This is a tropical island, and the weather is generally hot and humid.

As for hurricanes, yes, Puerto Rico is in the zone, just like southern Florida. It has been over two decades since a major one hit the island (Hurricane Hugo, 1989), so some people are skittish, thinking one may be due. The good news for newcomers is that Hugo caught the island ill-prepared, and the results prompted major changes. Time will
tell whether those preparations are adequate, but most Puerto Ricans seem to feel they are much readier for the next one. The interior of the island is sheltered from the full force of powerful storms.

**How’s the local food, and is it safe to drink the water?**

Nearly every grocery and dining option you can find on the mainland is available, and then some. Puerto Rican cuisine emphasizes plantains (the not-so-sweet cousin of a banana, used to make staples like mofongo and tostones), rice, beans, pork, and beef. Good seafood is plentiful, with variations on ceviche to compete with those of Mexico. Most restaurant meals are seasoned moderately.

Local fruits, vegetables, meat, poultry, seafood, and dairy products are generally safe to eat, especially if you purchase them from one of the stores listed below. Quality varies greatly, even from store to store within the same chain, or from day to day at the same store. Ralph’s grocery chain (no connection with the same-name stores in Los Angeles) is a standout for spacious and well-maintained stores. Pueblo is more upscale. Two other food chains, Econo and Amigo, are cheaper but more crowded and less modern. Walmart, Walgreens, and CVS all have multiple locations. The Costco in San Juan carries everything you’ll find at its counterparts on the mainland, but at peak hours shopping can be something of a full-contact sport.

Puerto Rico’s tap water is safe to drink; water sanitation standards are the same as on the mainland. However, you may prefer bottled water for the absence of flavor surprises.

**What about my car? Public transportation?**

San Juan is densely populated, with congested traffic during the morning and evening rush hours.

While the Puerto Rican government may want you to move to the island, they don’t want your car to come with you. If you bring it anyway, you’ll pay a tax. The amount, which you can estimate [here](#), varies with the car’s mileage and on whether it’s classified as a luxury vehicle. The levy can be as much as 40% of the car’s value. Plus there’s the cost of shipping the car to the island.

For most people, paying almost half again just to keep a car isn’t smart. And the car you have now may not be a good choice for Puerto Rico. You won’t need all-wheel drive or snow tires—and black leather seats will scorch if you park in the sun too long. Most mainlanders who move here leave their old car behind and replace it with something better suited to the island.
High taxes are not just for cars you import yourself, but also for cars that are purchased on the island. Taxes on cars purchased in Puerto Rico vary from 10% to 50%, depending on how luxurious the government rates the vehicle. In short, no matter how you obtain one, a car in Puerto Rico will be expensive.

Auto leasing is rare.

There are areas where one can get along for days or weeks without a car. One member of the Casey team sold his car on the mainland and instead of replacing it, bought a condo in an area where almost everything he needs is within walking distance.

The no-car program may or may not work for you. Taxis are plentiful and fairly cheap. The bus system in San Juan runs modern equipment, but service is infrequent and skips many areas. San Juan is not really a walking city, other than in certain tourist areas (such as Old San Juan and the posh Condado and Isla Verde areas). Even if you’re a big walker, getting from point A to point B can take you to neighborhoods where you’ll want to walk as fast as you can.

Driving in Puerto Rico is a chaotic and sometimes adrenaline-filled experience. Half the population thinks they’re driving ox carts and that the passing lane is reserved for them. The other half imagines being Formula 1 drivers called to demonstrate their virtuosity on every highway, street, back alley, and school zone. Puerto Ricans pay less attention to traffic lights than to the presence of police. Their focus is on what’s possible and convenient, with little weight given to legal or safe.

Living in a gated community or within walking distance of daily necessities mitigates the problem, but the new world of driving may be the single most difficult thing to get used to in Puerto Rico. Taxis are one way to deal with it; making a driver the first new employee of your new Puerto Rican business would be another.

**What other taxes should I be aware of?**

Puerto Rico imposes a 6% sales tax, and municipalities have authority to collect another 1%.

Puerto Rico’s 10% estate tax (compared to 40% in the US) applies only if you were born or naturalized in Puerto Rico. An American born on the mainland or naturalized as a US citizen who later becomes a Puerto Rican resident is not eligible for the lower estate tax rate.

Income tax rates in Puerto Rico reach the top bracket of 33% when taxable income hits $61,500.

For property taxes, see the Real Estate section.
What is the condition of the infrastructure?

The infrastructure is good by regional standards—better than what you’d find in Belize or other Caribbean countries—but not as good as on the mainland.

Roads—Potholes, trenches, chasms... the roads are not friendly to low-slung cars like Corvettes, and many of them are narrow and a tight squeeze for large SUVs—but you’ll see both types of vehicles and many others bumping along.

Electricity—Mainland-style electrical plugs and outlets are standard in Puerto Rico. Electrical service is reliable compared to neighboring islands, but not as reliable as in most parts of the mainland. In case of a hurricane, expect widespread outages. Most major hotels and better apartment buildings have backup generators to keep the lights on in case of a power failure. This is definitely something to check on when you consider buying property.

Internet—Puerto Rico is ranked 75th internationally for Internet speed (9.3 Mbps), compared to the US at 32nd place (20.9 Mbps). In practice, we’ve found that Internet connectivity doesn’t work as consistently as in similar-sized US cities. However, it’s available almost everywhere via cellular providers—even in the middle of the El Yunque rain forest.

Cellular Networks—Generally, you can keep your US cellphone plan. Most major US providers regard Puerto Rico as part of the US, with no roaming charges. 4G is available island-wide.

Airports—Luis Muñoz Marín International Airport (SJU), near San Juan, is old but functions well. The TSA and all its joyful procedures are celebrated at SJU. There are dozens of daily flights to the US mainland, mostly to the East coast. Flight times are 3.5 hours to New York City, 2.5 hours to Miami, and 5 hours to Dallas. SJU is also an air-service gateway to many lesser islands in the Caribbean.

Other, smaller airports have direct flights to the US, from Ponce on the south side of the island and from Rincón on the island’s northwest corner. Still smaller facilities serve nearby islands (including Vieques and Culebra, both part of Puerto Rico), and the US and British Virgin Islands.

What about schools?

There are good private schools with instruction in English, such as Saint John’s School in the upscale Condado district of San Juan and Palmas Academy in Humacao’s Palmas del Mar resort town. Public education is in Spanish.
Will I have trouble moving my belongings?

Any major moving company, such as Graebel and Mayflower, will move belongings to Puerto Rico. It’s like moving anywhere in the US—though at a significantly greater cost than a land-only move.

It may be easier and cheaper to sell your things and replace them in Puerto Rico at a local Costco, **IKEA**, or **Sam’s Club**. Modern furnishings and décor can also be found at local chains, such as Pitusa and Rooms To Go.

You’ll face no import duties on what you do bring with you, except as noted above, for cars.

How is the cost of living?

Although electricity is about twice as expensive as in the US, the overall cost of living is generally lower in Puerto Rico than on the mainland—according to the **2013 ACCRA Cost of Living Index**, 21% lower.

But those are averages. In practice, in the expat-friendly areas where you probably will want to live, most retail prices match those in the US. To find lower costs, you’d have to move to an area where you might feel exposed and out of place.

For specifics on many day-to-day items and a city-to-city comparison on the cost of living in Puerto Rico, see [this website](#).

Where can I find more information?

A great source of on-the-ground information on living and working in Puerto Rico is this [directory of blogs from expats living in Puerto Rico](#).
Banking in Puerto Rico

Should you choose to become a Puerto Rican resident, it is, of course, prudent to keep some of your eggs in non-Puerto Rican baskets. Some or most of your savings can be elsewhere while you maintain a checking account in Puerto Rico for day-to-day use and to support your posture as a resident.

Deposits in Puerto Rican banks are insured by the US Federal Deposit Insurance Corporation (FDIC).

A Puerto Rican financial account is not “foreign” for US reporting purposes, so it won’t trigger a requirement to file an FBAR or Form 8938.

By far the largest retail bank is Banco Popular, a Puerto Rican institution that has been expanding into Florida and nearby states. Of the mainland US retail banks, only Citibank has a small presence in Puerto Rico.

Other retail banks are:

- **Scotiabank** (Canada)—the most widely present non-Puerto Rican retail bank.
- **1FirstBank** (Puerto Rico)
- **Doral Bank** (Puerto Rico)
- **Oriental Bank** (Puerto Rico)
- **Santander** (Spain)

You’ll need a Puerto Rican checking account for routine transactions, but keep it under the FDIC-guaranteed amount—which currently is $250,000 per depositor per institution. If you want to keep more in Puerto Rican banks, use multiple institutions, so that every dollar is the FDIC’s problem.

Because maintaining a US brokerage account won’t interfere with passing the “closer connection” test or risk tying your business to the US, we recommend that you keep the brokerage accounts you have. ACH and wire transfers between them and your checking account in Puerto Rico are as simple as within the US.
Where to Live?

Puerto Rico supports a wide variety of lifestyles: luxurious gated expat communities, less polished neighborhoods shared with locals, the nearby nature preserve, an out-of-the-way island, or the hustle and bustle of the capital. The choice depends on what you like and what your business requires.

San Juan, Humacao, Ponce, the western cities, and the minor islands are all different. You would talk about them as you would the different parts of New York state or Illinois.

San Juan and Environs

San Juan is Puerto Rico’s major population center, home to roughly 2.7 million of the island’s 3.8 million inhabitants. It’s where you’ll find all the top restaurants and nightlife.

San Juan is also the commercial heart of Puerto Rico—every big business, bank, and
law firm has a presence there. If your business needs daily interaction with banks and lawyers, you’ll want to be in San Juan. But if you’re in a service business or you relocated to Puerto Rico to manage your investments, you probably can work from anywhere on the island, thanks to ubiquitous cellular and Internet coverage.

Three areas of San Juan are of special interest for expats: Condado, Isla Verde (technically part of the municipality of Carolina), and Old San Juan.

CONDADO AND ISLA VERDE

Living in Condado or Isla Verde puts you close to a beautiful beach. Of the two, Condado is a little more expensive, upscale, and touristy.

Both Isla Verde and Condado are a mix of 1950s vintage buildings and newer construction. Both areas rate high for personal safety. Avenida Ashford, Condado’s main street, carries busy foot traffic day and night, to cafés, shops, bars, and restaurants. Isla Verde has very upscale areas as well, but they’re more spread out, making a car more important. It is also not too far from government housing projects, which you should assume are no-go zones.

OLD SAN JUAN

Old San Juan is the quaint, historic center of Puerto Rico and one of the island’s main tourist attractions. It is one of the few places with real character—including narrow, one-way cobblestone streets, which comes from being hundreds of years old. (It was founded in 1509.) Old San Juan is also the locale for some of the best restaurants, shopping, cafés, bars, and nightlife.

It’s rich in historic and gentrified buildings as well as the remnants of old citadels. Old
San Juan is actually enclosed by old fort walls, which impairs access to the beach. The port is still active, and Old San Juan is a popular stop for cruise ships.

Old San Juan is also home to Puerto Rico’s most famous slum and drug market—La Perla—a place to avoid. You’re not likely to stumble into it, however, as it is outside of and isolated by the old walls that surround the city’s heart. But it sits between Old San Juan and Condado and is one reason many people avoid walking between the two.
Dorado

Dorado lies directly to the west of San Juan, about a 30-minute drive from the city center along the northern coast. It is home to the best-known and most upscale expat communities, which are assembled around the egregiously luxurious Ritz Carlton resort (which is not to be confused with Condado’s Ritz Carlton hotel, which is older and merely posh). Dorado is also known for its four golf courses and beautiful beaches. If you aren’t afraid to drop a few million on a beachfront home, you’ll fit right in. Townhouses and apartments are available as well, at much lower prices.

Ponce

Ponce is on the south coast, about a 90-minute drive from San Juan, and is Puerto Rico’s second-largest city. It was founded in 1692 and retains a distinctly colonial character. Ponce is more laid back and relaxed than the bustle of San Juan.

The city has a down-at-the-heels look to it and is surrounded by agricultural and industrial lands. The beaches are rockier than most on the island. It’s worth considering as a city alternative to San Juan, but it’s not at the top of our list of nice places to hang one’s hat.

Ponce’s Mercedita International Airport (PSA) has direct flights to New York, Miami, and other US destinations.

Humacao and the East Coast

Humacao is a municipality on the east coast. It includes Palmas del Mar, home to Puerto Rico’s largest beach and golf resort. Palmas’ upscale expat communities are among the safest places on the island. Thanks to a massive development fraud that sent property prices back down to earth in 2012, it currently is far more affordable than Dorado. Bargain hunters have been snapping up properties, which is revitalizing the resort. It’s home to two golf courses, nearly two dozen restaurants, and miles of houses, condos, and hotels.

The West

Rincón, in the northwest corner of the island, is known for its world-class surfing beaches and is popular with expats. With a decidedly surf-town vibe, it’s a place to look if you prefer a more emphatically Caribbean feel. The buildings tend to be older, smaller, and less luxurious than at the east-coast resorts—what some would call more authentic.

The nearby Rafael Hernández Airport (BQN) has direct flights to Miami and New York.
Vieques Island

If you prefer something more rural and less developed, the island of Vieques—eight miles east of the main island, directly across from Palmas del Mar—may be for you. Vieques has a number of amazing attractions, including the world-famous Bioluminescent Bay, where the water glows at night with a rare type of plankton. Watch this four-minute video from National Geographic. The island also offers undeveloped beaches with pristine blue water and few people.

Vieques has ferry service several times a day to Fajardo, on the east coast of the main island. Antonio Rivera Rodriguez Airport (VQS) handles small plane connections with San Juan and the smaller island airports.

It sounds like paradise and in some ways is pretty close, but the island’s remoteness and isolation make it a place where you don’t want to run into trouble. Vieques is a nexus for drug trafficking, and civilians have been caught in drug-war crossfire. Property left unattended on Vieques is at risk of not being there when you get back.

Other Options

Our list is by no means exhaustive. Fajardo, Humacao, and other eastern towns are home to excellent gated communities, including some centered on boating. Rio Mar is trying to develop a new Palmas on a smaller scale, but is handicapped by nearby rough neighborhoods. We’ve only covered the most popular of options; there are many smaller and more intimate little towns, like Isabela, that welcome expats with open arms.
Buying, Selling, and Owning Real Estate

Housing prices in Puerto Rico vary considerably. In Condado, for example, you could buy a two-bedroom condo anywhere from $200,000 to $2,500,000—it varies that much in just one neighborhood of San Juan. For some, it might make sense to rent instead of own.

Property taxes as a share of a property’s fair-market value generally turn out to be considerably lower in Puerto Rico than in most mainland communities. This is in part because taxes are assessed on historical values (in some cases going back to the 1950s), not on the current market values.

Property taxes are calculated annually by the Centro de Recaudación de Ingresos Municipales (CRIM), which has an office in each municipality. When you purchase a property, you register it with CRIM, and it will tell you what to pay.

There is no such thing as a private beach in Puerto Rico; all coastline is public land accessible to anyone. So if you want to live in a truly secure gated community, it cannot have a beachfront. You cannot close the gate to anyone who asks to go to the beach.

To get a better feel for specific areas in Puerto Rico, consult the listings at Zillow, which displays a map view of the properties. The next step would be to consult a competent real estate professional (see the Resources section) to help identify the right property and guide you through a purchase.
Resources and Professional Contacts

If you’re thinking of taking the plunge and heading to Puerto Rico, you’ll need a few good people to help you. First and foremost, talk to a tax professional—either a tax attorney or a CPA—with direct experience in working with Puerto Rican tax incentives. There is much to get right, from municipal licensing to planning for business licensing. Given that the government weighs the details of each application, it’s an advantage to use advisors who are already known to the people doing the weighing.

You’ll also need help with real estate. Puerto Rico uses a multiple listing system, so in theory any broker can show you any listed property. But not everything that’s for sale is listed; in some cases, only a few local brokers know about a property’s availability.

Each practitioner named below is either someone with whom we’ve had direct experience or someone recommended by such a person. But don’t rely solely on us. Do your own diligence and apply your own standards of judgment.

Lawyers with Act 22 and Act 20 Experience

Pietrantoni Méndez & Alvarez LLC

This large firm is located in the Banco Popular building in prime, commercial San Juan. They serve some of the best-known companies from the island and abroad, and as with any high-powered law firm, you only get the attention your billable hours warrant. There can be long delays in communication, as bigger cases and clients come first. But we’ve found the firm to be pleasant, competent, and not inclined to overcomplicate anything.

Primary Contact: Edgar Ríos, Member (Partner)
Secondary Contact: Jeanelle Alemar, Limited Member (Junior Partner)

Popular Center 19th Floor
208 Ponce de León Ave
San Juan, PR 00918

Phone: (787) 274-1212
Fax: (787) 274-1470
Email: info@pmalaw.com
Website: www.pmalaw.com
Adsuar Muñiz Goyco Seda & Perez-Ochoa, P.S.C.

AMG are very well-known corporate tax attorneys in Puerto Rico with a long list of business clients, primarily in pharmaceuticals. AMG isn't the right choice for an individual or a small enterprise looking to relocate; but if you sense your situation is more complex, you might consider discussing it with our contact, Fernando Goyco-Covas, to see if his experience with tax incentive clients would help you. The service will come with the added cost of playing in the big leagues, of course.

Primary Contact: Fernando Goyco-Covas

268 Muñoz Rivera Avenue, Suite 1400
San Juan, PR 00918

Phone: (787) 281-1802
Fax: (787) 756-9010
Email: goyco@amgprlaw.com
Website: www.amgprlaw.com/

McConnell Valdés LLC

Mr. Bengoa has a general practice focused on Puerto Rico tax incentive issues and the negotiation of agreements with the Puerto Rico Industrial Development Company.

Primary Contact: Esteban “Ricky” Bengoa

270 Muñoz Rivera Avenue
Hato Rey, PR 00918

Phone: (787) 250-5626
Fax: (787) 759-9225
Email: erb@mcvpr.com
Website: www.mcvpr.com/

US-BASED ATTORNEYS

Law Office of Gerald R. Nowotny

Gerald Nowotny helps mainland Americans obtain the benefits of Act 22 and Act 20, assisting them from start to finish. Gerald is particularly astute at analyzing personal and business circumstances and then devising a plan to maximize the benefits from the Acts. He knows the Puerto Rican side of the law and also, critically, the US side, regarding which many Puerto Rican firms are lacking.
Primary Contact: Gerald Nowotny
266 Lovely Street
Avon, CT 06001
Phone: (860) 404-9401
Fax: (860) 540-1880
Website: www.gerrynowotny.com/

Accountants

In addition to providing the kinds of services (other than US tax preparation) for which you now rely on your local accountant, a CPA firm in Puerto Rico can assist you in applying for Act 22 and Act 20 status, possibly at a lower cost than a law firm.

PricewaterhouseCoopers

The well-known US accounting firm has a practice on the island that is experienced in Act 22 and Act 20 work. However, we would not select it as our primary source of advice on US tax matters.

Primary Contact: Hector Bernier
254 Munoz Rivera Avenue
San Juan, PR 00918
Phone: (787) 772-8035
Email: hector.bernier@pwc.com
Website: www.pwc.com
BDO Puerto Rico

International accounting firm BDO also has a substantial presence on the island. They proved themselves competent in all our discussions, though we did find a bit too much enthusiasm for complexity. Weigh their advice critically, or you risk building a structure that is needlessly complicated and expensive to maintain.

Primary Contact: Gabriel Hernández, Shareholder Tax Division

1302 Ponce de León Avenue, Suite 101
Santurce, PR 00907

Phone: (787) 754-3999
Email: gaby@bdopr.com
Website: www.bdopr.com

SMALL PRACTICES

Talkington & Associates

Lance Talkington, the principal of this small firm, eats his own cooking. He came to Puerto Rico for Act 22 and Act 20 advantages and to serve his mainland clients from the island while continuing to maintain an office in the US. Lance runs the Act 22/20 service himself out of his home in Palmas del Mar.

Primary Contact: Lance Talkington

1501 N. University Avenue #420
Little Rock, AR 72207

Phone: (501) 687-0051
Email: lance@talkington.cc

Real Estate Agencies

SAN JUAN METRO AREA AND SURROUNDING

TIRI (Trans Indies Realty & Investment Corp.)

TIRI real estate is one of the island’s oldest and largest firms and specializes in the middle-income housing market. We’ve worked with it extensively, but its main business is with
locals, not expats. The agents are capable and well trained, and because of the firm’s size, they can help you anywhere on the island. There are offices in Bayamon, Carolina, Condado, and Guaynabo, and have shown us properties as distant as Isabela and Palmas del Mar.

Contact: Sharon Humbert (Associate Agent)

Phone: (787) 579-5007
Email: sharonhumbert4@gmail.com

Camino Alejandrino #9
Guaynabo, PR 00969

Phone: (787) 789-0000
Fax: (787) 789-0013
Email: giselacastro@tiri.com (owner’s direct email)

SAN JUAN AND DORADO

The next two agencies are boutiques specializing in the limited volume of properties in the upper price range—primarily $500K+ properties. Between them, they list the majority of the $1M+ properties in their area.

Trillion Realty Group (a Christie’s affiliate)

Contact: Ani González Brunet

P.O. Box 16321
San Juan, PR 00908-6321

Phone: (787) 925-2520
Fax: (787) 281-2904
Email: ani@trillionrealtygroup.com
Website: www.trillionrealtygroup.com

Puerto Rico Sotheby’s International Realty

This agency is run by Margaret Pena Juvelier, who came to the island from Sotheby’s New York City office in 2012 to open the firm’s Puerto Rico office. Their primary clientele is US expats headed to the island, many for Act 22 and Act 20 reasons.

Primary Contact: Margaret Pena Juvelier

Phone: (787) 523-6500
Website: www.puertoricosothebysrealty.com
PALMAS DEL MAR

Oceano Beach Resorts

Whether you are looking for rentals or sales, consider the folks at Oceano Beach Resorts. The office is just inside the gate of the sprawling resort, with the best view available of the compound. Oceano is a rehab developer, so most of the properties you’ll be shown will be from its inventory.

Website: www.oceanobeachresorts.com/

Lillian Gonzalez

In Palmas for more than 25 years, having moved from New York with her family, Lillian is well known in the community and came to us highly recommended by multiple sources.

Website: www.palmasdelmarlistings.com/

Casillas Realty Group

This family firm represents just a few dozen homes at a time.

Website: www.casillasrealty.com/

Other Important Resources

20/22 Act Society

The Society is like a Rotary Club for ex-mainlanders. Among its community service activities is providing support for people who are making the move to Puerto Rico or are considering doing so.

The Society is based in Dorado. It regularly holds member events in the San Juan area. Learn more about how they can help you at www.the2022actsociety.com.

You will also find informal Act 20/22 meetups in most popular expat communities. We’ve run across them in Condado and Dorado already, and one of our people even organized one in Palmas del Mar.
Conclusion

Puerto Rico offers Americans a truly unique opportunity to escape some of the burdens of citizenship-based taxation that would otherwise only be available by renunciation. If you are an American with significant investment income or have a service business that can be relocated, the Puerto Rico option might be for you. It’s not simply an investment or tax decision, though. It’s also a lifestyle decision, which would be a happy decision for some—but not for everyone.
Doug Casey's
INTERNATIONAL MAN

DISCLAIMER: Casey Research, LLC does not provide investment, tax or legal advice, and nothing in this e-mail or any document found at InternationalMan.com should be construed as such. Before undertaking any action, be sure to discuss your options with a qualified advisor.

The information contained within this article is based on the best research we could find as of the date of publication. However, the world changes fast and information can become out of date relatively quickly. So, two points... First, before undertaking any action described in this material, please conduct your own due diligence and verify all facts. Second, if you happen to spot an out of date fact or figure (or even suspect something is out of date or false), simply get in touch with us and we'll look into it. International Man is a network made up of some very smart people - tax specialists, accountants, lawyers, analysts and many other talented individuals. As a group, we can create and maintain a very accurate and highly actionable resource for internationalization.

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