

Investors Information Guide



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PUERTO RICO

Five Star- Five Diamonds Naturally

Puerto Rico Overview

Important Facts about Puerto Rico

Puerto Rico is the easternmost of the Greater Antilles and the fourth largest island in the Caribbean after Cuba, Hispaniola (which comprises the Dominican Republic and Haiti), and Jamaica. The Island is located at the crossroads between North and South America, at just 3.5 hours airtime from New York, 60 minutes from Caracas, and at only 4 days sailing from Atlantic ports in the US and ports in the Gulf of Mexico. The Puerto Rican territory includes other three small islands (Vieques, Culebra and Mona), as well as numerous islets and keys.

Puerto Rico has the best of both worlds. On one hand a spectacular island with over 300 miles of the most beautiful beaches in the Caribbean, coupled with a developed economy, a highly efficient, state-of-the-art infrastructure, finest medical facilities in the Caribbean, the Historic Old San Juan, the oldest settlement within the US dating back to the 16th century and its warm and friendly people that embraces all visitors.

IMPORTANT FACTS ABOUT PUERTO RICO

CLIMATE

Tropical marine, mild; little seasonal temperature variation

TEMPERATURES

Average of 74 F (23 C) in the winter, 81 F (27 C) in the summer

GEOGRAPHY – NOTE

Important location along the Mona Passage - a key shipping lane to the Panama Canal; San Juan is one of the biggest and best natural harbors in the Caribbean.

POPULATION

3,725,789 (2010 Census.)

LANGUAGES

Spanish, English

COUNTRY NAME

Commonwealth of Puerto Rico

DEPENDENCY STATUS

Unincorporated, organized territory of the US with commonwealth status; policy relations between Puerto Rico and the US conducted under the jurisdiction of the Office of the President.

GOVERNMENT TYPE

Commonwealth

CAPITAL

Name: San Juan

TIME DIFFERENCE

UTC-4 (1 hour ahead of Washington, DC during Standard Time)

LEGAL SYSTEM

Based on Spanish civil code and within the US Federal system of justice

POSTAL SERVICE

Puerto Rico is part of the US postal system and has the same mail rates and services as provided on the US mainland. Post Offices in every city offer Express Mail next day service to the US mainland and Puerto Rico. In addition, express services are offered by FedEx, UPS, Emery, RPS, and DHL.

CURRENCY

Puerto Rico uses the US dollar. The US dollar is often referred to as the “peso”

Important Facts About Puerto Rico

Old San Juan

(Spanish: Viejo San Juan) is the oldest settlement within the territory of the United States and it is the historic colonial section of San Juan, Puerto Rico. It is located on a small island connected to the mainland of Puerto Rico by two bridges and a causeway. The city is characterized by its narrow cobblestone streets and colorful buildings, which date back to the 16th and 17th century when Puerto Rico was a Spanish possession.

Several defensive structures and notable forts, such as the emblematic Fort San Felipe del Morro, Fort San Cristóbal, and El Palacio de Santa Catalina, also known as La Fortaleza, acted as the primary defenses of the settlement which was subjected to numerous attacks. La Fortaleza continues to serve also as the executive mansion for the Governor of Puerto Rico.

El Yunque Rainforest

El Yunque National Forest, formerly known as the Caribbean National Forest is located in the rugged Sierra de Luquillo, 40km southeast of San Juan. It gets its name from the indian spirit Yuquiyu, which means “Forest of Clouds”. El Yunque is the rainiest of all the National Forests with up to 240 inches per year. The Forest contains rare wildlife including the Puerto Rican Parrot, which is one of the ten most endangered species of birds in the world. Approximately 50 other bird species are found on the Forest, which serves as a wildlife refuge; no hunting is allowed. So amazing it is indeed, that it was recently selected as a finalist during the “7 Wonders of Nature” competition, from

among an outstanding group of 261 nature venues from all around the world. It is also known for having the highest quality waters in Puerto Rico. Because it is a mountainous rainforest, there are plenty of streams, creeks, and rivers crossing it. The steepness of the terrain provides numerous lovely cascades, including the wonderful “La Coca Falls”, the first spectacular feature seen by the visitor traveling up to the Forest.

IMPORTANT FACTS ABOUT PUERTO RICO

CUSTOMS AND IMMIGRATION

Puerto Rico has become one of the few exotic destinations Americans may travel to without a passport. As part of the Terrorism Prevention Act of 2004, all Americans traveling by air or by sea to or from Canada, Mexico, Central and South America, Bermuda and Caribbean will be required to have a passport or other secure, accepted document to enter or re-enter the U.S. As part of the United States of America, Puerto Rico is exempted from this new law.

Citizens of other countries have the same requirements as for entering the USA. Potential visitors must first obtain a visa, either a non-immigrant visa for temporary stay or an immigrant visa for permanent residence.

The San Juan International Airport is the leading regional airlift and handles 4,300 cargo flights per month and over 1,800 weekly flights for more than 20 cities in the US and several international destinations in the Caribbean, North America, South America and Europe with two major airports serving the West and East coast. Luis Muñoz Marín International Airport ranked 34th among passenger airports in the U.S.

There are non-stops flights readily available from more than 20 gateway cities in the U.S., with an average flight time of three hours. You can be working in New York in the morning and enjoy an incredible sunset in Bahía in the afternoon. Bahía is a short drive from San Juan, 25 minutes away from the International Airport. No hassles associated with entry or re-entry to the continental U.S.

The Puerto Rico Convention Center is the largest in the Caribbean and the most technologically advanced throughout both the Caribbean and Latin America. Boasting 580,000 square feet of total space, the Center can accommodate groups of up to 10,000, in an ideal setting at the gateway to all the Island has to offer.

ECONOMY - OVERVIEW

Puerto Rico has one of the most dynamic economies in the Caribbean region. A diverse industrial sector has far surpassed agriculture as the primary locus of economic activity and income. Encouraged by duty free access to the US and by tax incentives, US firms have invested heavily in Puerto Rico since the 1950s. US minimum wage laws apply. Sugar production has lost out to dairy

production and other livestock products as the main source of income in the agricultural sector. Tourism has traditionally been an important source of income.

TOURISM

Passenger movement- inbound: 4,863,000

Occupancy rate: 65.5% Cruise ship visitors- 1,392,600 (2008 est.) 1.2 million passengers per year.

International Airport

Main airport: Luis Muñoz Marín International Airport Location: About nine miles from Old San Juan

Airlines that serve Puerto Rico: American Airlines, Air Tran, Southwest, West Jet, Air Canada, Condor, Avianca, Jet Blue, Delta, United, US Airways, Spirit, Sun Country Airlines, LIAT, Cape Air, Seaborne, among others. Principal US destinations: Atlanta, Baltimore, Boston, Charlotte, Cleveland, Chicago O'Hare, Dallas/ Fort Worth, Detroit, Fort Lauderdale, Hartford, Houston, Los Angeles, Memphis, Miami, Minneapolis/ St. Paul, Newark, New York-JFK, Orlando, Philadelphia, Tampa, Washington-Dulles.

WORLD-CLASS CULINARY EXPERIENCE

Puerto Rico is the Caribbean's capital of gastronomic tourism. Visitors experience the rich and enticing flavors that this culinary melting pot has to offer. The Island's chefs are exceptionally talented men and women who have gained worldwide recognition by breaking culinary paradigms and pushing beyond traditional boundaries. Impeccable taste and delighting creativity have earned them numerous national and international distinctions, among them the Top Chef Awards, La Grand Medaille d'Honneur, the Chef's Hat Awards, and the National Chef Awards. The presence and strong influence of renowned and prestigious international restaurants such as Jean-Georges, BLT, Morton's of Chicago and Il Molino, have also contributed to the development of a new culinary language, thus making the dining experience another great highlight when visiting the Island.

REAL ESTATE

Amazingly, considering the difficulties many industries have encountered due to the economic situation all around the world, the real estate business in Puerto Rico is stable. More than ever, people are looking for some piece of mind, and it seems that Puerto Rico fits perfectly with the highest standards of living.

CULTURE

Close to 4 million people live on the "Island of Enchantment," with more than a million in the greater San Juan metropolitan area alone. It is a vibrant, modern, bilingual, multicultural society,

one that has been molded by Spanish, African, Indian and U.S. influences. Residents of Puerto Rico have much in common with their fellow Americans in the continental United States, yet they retain a decidedly Hispanic heritage.

ECONOMY—OVERVIEW

SHOPPING

San Juan is the Island's shopping Mecca. Plaza las Américas, the Caribbean's largest and most modern shopping center with over 300 stores, is located here. There are various shopping centers and two big factory outlet malls around the Island. In Puerto Rico there are the same big retail brands than in the U.S.

ENTERTAINMENT

Puerto Rico has a great variety of entertainment options for all ages and tastes. From breathtaking golf courses around the Island, to enjoyable casinos and exciting nightclubs. There are various discos at Isla Verde and modern chic hotel lobbies at Condado. If you want to hang out with the locals, La Placita, in Santurce, turns into an all-out street fest at night on the weekends. Old San Juan offers exciting entertainment, including restaurants, clubs and shops. Fiestas de la Calle San Sebastian and the San Juan Culinary Week are just a few of the special events held periodically at this historic city.

HOW TO BUY IN PUERTO RICO

Puerto Rico law does not prohibit or restrict a foreign person from acquiring real estate in Puerto Rico. Under Puerto Rico law, title is referred to as fee simple (pleno dominio), and can be acquired by a purchase and sale, gift, inheritance, exchange or by adverse possession. Fee simple entitles the owner to sell, transfer, mortgage, encumber, lease and/or use the property, subject to zoning regulations and recorded easements, covenants and other liens and encumbrances.

Fee simple title can be acquired by a private contract between the transferor and transferee. However, if the parties wish for the transfer of title to affect third parties, title must be transferred by a public deed executed before a notary public in PR. A certified copy of this deed is then filed for recordation in the applicable Section of the Registry of Property of Puerto Rico (the "Registry.") Parties to a real estate transaction must pay stamps and recording costs upon the execution of a deed which is to be filed in the Registry, the cost of which depends on the amount of the transaction (such as the purchase price in a purchase and sale transaction). The rate is approximately \$5.65 per thousand. Notaries in Puerto Rico have to be admitted to practice of law and therefore, only lawyers may act as notaries in the legalization of documents that need to be registered at the Puerto Rico Registry of Property, such as deeds of purchase and sale. The maximum allowable

notary fee in Puerto Rico is 1% of the property value for the first US \$500,000 plus 0.5% of the amount in excess of \$500,000 and notary charges tend to be close to the aforesaid maximum allowable amount. Prospective purchasers and mortgagees may examine title with respect to a parcel in PR by examining the records of the Section of the Registry which covers the municipality where the parcel is located. Title is usually examined by requesting a local title company to prepare a title study with respect to a parcel. Said title study will show who owns the parcel, the liens and encumbrances to which the parcel is subject and the priority of said liens, and any judicial or creditor liens that may have been filed. A title study, if prepared properly, would reflect defects in the chain of title, if any.

It is recommended that a person who acquires fee simple title or any other real property right that it do so by means of a public deed, and that a certified copy thereof be filed for recordation in the Registry. The foregoing action, coupled with other requirements, would protect the acquirer as a "registered third party" from unrecorded rights and subsequent fraudulent sales by the seller/transferor. Also, it is typical in PR for an acquirer of fee simple title to obtain property title insurance. This insurance protects the insurers from damages sustained by reason of (I) title to the property being vested other than in the insurer, (II) any defect in or lien or encumbrance on title, (III) unmarketability of title, and (IV) lack of a right of access.

Act No. 132 enacted on September 2, 2010 provides a 100% income tax exemption (including total exemption from income tax withholding) on residential rental income derived by PR residents and non-residents and these benefits expire on December 31, 2020 (in order to claim the benefits the lessor must file a PR income tax return to declare the rental income as 100% exempt). On November 1st, 2011 Puerto Rico enacted Act No. 216 of 2011, which, together with various housing programs, is intended to promote the acquisition and investment in the housing market on the Island. Investors, executives and business owners already benefiting from other incentives laws in Puerto Rico or individuals simply wanting to invest in a property in Puerto Rico can benefit from this and other incentives that range from total exemption of property taxes to cash incentives for transaction costs. See the Economic Incentives in Puerto Rico section below.

Documents Needed to complete a loan Application

Personal income documents

salaried employment:

- Copy of the last two paycheck stubs showing year-to-date income
- Complete copy of the two previous years tax returns form and all its addendums.
- Copy of W-2 form for the past year.

for self-employment, sole Proprietor:

- Copy of the financial statements for the previous two years and year-to-date, including Profit and Loss statement.

- Copy of the last six months of business bank statements

for corporation:

- Copy of the Municipal Patent and Incorporation Certificate
- Copy of year-to-date Profit and Loss statement
- Copy of the previous two years of tax returns
- The last two years of financial statements supported by six months of bank statements

for retirement income:

- Original Social Security Award Letter of Pension Award Letter
- Copy of the previous two years tax returns

for rental income:

- Copy of complete tax return for previous two years (including Schedule E) or
- Copy of lease or rental agreement for all properties

asset documents

- Copy of the three most recent account statements for all checking, savings or other asset accounts

liabilities (debts other than consumer credit accounts)

- A copy of the fully executed divorce decree indicating the amount of child support, alimony or separate maintenance payments, if applicable.

Banks in Puerto Rico

Banco Popular de Puerto Rico 787-765-9800

Banco Santander 787-777-4100

FirstBank 787-792-8200

Oriental Bank 787-771-6800

Scotiabank 787-758-8989

Banco Cooperativo de Puerto Rico 787-641-2300

Puerto Rico Property & Tax Guide

Puerto Rico is a Commonwealth of the United States. Puerto Ricans get the best of both worlds: gorgeous Caribbean beaches and the benefits of having an American citizenship.

Taxes

Rental Income: Generally, gross rental income of non-residents is taxed at a flat rate of 29%, withheld by the tenant. However, as previously discussed, until December 31, 2020, under Act 132-2010, lessors may claim a 100% exemption from the Puerto Rico income tax on the rental income.

Income tax

A non-resident alien not engaged in a trade or business in Puerto Rico is generally taxed at a flat rate of 29% (withheld) on Puerto Rican-sourced profits and income including investment income, rental income (discussed above) and capital gains.

Currency

Puerto Rico uses the US Dollar (USD)

Property tax

In Puerto Rico real property is subject on an annual real property tax. Real property taxes are computed based on property values that date back to the fiscal year 1957-1958 (which was the last time that a general appraisal was conducted by the Government of Puerto Rico). The assessment is made as of January 1 of each year by the Municipal Revenue Collection Center (“CRIM”, for its Spanish acronym) by discounting the current fair market value (“FMV”) of the property to the 1957-1958 values. The rates, ranging from 8.03% to 11.83 %, of which vary depending on the municipality where the property is located. For example the rate in Rio Grande for year 2016-2017 is 10.33%. Under Act 216 of 2011, as amended (Act 216) a 5-year 100% real property tax exemption was available for residential property acquired on or before August 31, 2015 (see below for further information).

Capital gains tax

Earnings of nonresident individuals from the sale of a property are subject to a withholding tax of 25% (15% in the case of US citizens), which is levied on the gross selling price minus the cost of the property and certain selling costs incurred by the seller. This withholding tax can be credited to the nonresident’s final tax liability. The final tax liability is based on the actual capital gain (which includes as a deduction the improvements realized to the property, said improvement costs are not considered for withholding purposes). In the case of US citizens the applicable tax will be 15% on the actual net capital gain and in the case of other non-residents the applicable tax will be 29% on the actual net capital gain, assuming the property has been held for a period in excess of one year.

Puerto Rico Property & Tax Guide

Notary fees

It is mandatory that a notary prepares the sale and purchase deed. Maximum allowable notary fee is 1% of the property value for the first US \$500,000 plus 0.5% of the amount in excess of \$500,000.

Registration and filing fees

Several fees must be paid to different offices such as the Municipal Revenues Collection Center (CRIM), Treasury Department and Registry of Property. These fees are minimal and are not expected to exceed 0.75% of property and mortgage value.

Internal revenue stamps

Internal Revenue Stamps are purchased to be canceled on the original of deed of purchase and sale and first certified copy of deed to be filed in the Registry of Property. The notary keeps the original while the certified copy is filed at the Registry. Before applying for registration, filing vouchers for the Registry of Property must be bought first. Internal revenue stamps and vouchers are acquired electronically by lawyers/notaries.

Attorney's fees

Although not mandatory, it is highly advisable for foreign buyers to hire an attorney or lawyer. Attorney's fees may vary depending on location and the complexity of the transaction. Most lawyers charge a percentage of the selling price, about 0.5% to 1%, for the real estate transaction and charge a fixed fee or on an hourly basis for consultations and engagements. Each party pays for their own lawyer.

Puerto Rico Incentive Laws

Puerto Rico already offers significant tax incentives and some tax credits for certain manufacturing industries, hotel and tourism-related operations, agricultural activities, the film industry, international banking operations, green energy projects, and certain hospital facilities.

On January 17, 2012, in search of new and creative ways to incentivize the economic development of the island, the government of Puerto Rico approved two new laws, one intended to attract high net-worth individuals to become residents of Puerto Rico and the other to promote export of services to foreign markets. .

Relocation of Individual Investors

Act No. 22-2012 of January 17, 2012 (Act 22), the Act to Promote the Relocation of Individual Investors to Puerto Rico (the "Individual Investors Act"), is designed to encourage investors to become residents of Puerto Rico by providing an exemption from Puerto Rico income taxes on interest, dividends, and capital gains realized or deemed accrued after such individuals become bona fide residents of Puerto Rico. This relocation should result in new local investments in real estate, services, and consumer products, as well as capital injections to the Puerto Rico banking sector; all of which will accelerate the economy of Puerto Rico.

The tax benefits granted under the Individual Investors Act will be available until December 31, 2035 (the "Tax Exemption Period"). During this period, interest and dividends that qualify as Puerto Rico source income received by a "resident individual investor" (i.e., an individual who has not been a resident of Puerto Rico for the 6 years before January 17, 2012, Act 22's date of enactment) will be 100 percent tax exempt from Puerto Rico income taxes. Since I.R.C. §933 also does not subject this interest and dividends to federal taxation, the income will be totally exempt.

Long-term capital gains derived by a "resident individual investor" during the Tax Exemption Period will be subject to preferential income tax rates. If such gains were deemed to have accrued

before the individual investor becomes a Puerto Rico resident and are recognized within 10 years after the date the investor established residence in Puerto Rico, the gains will be taxed at a 15 percent income tax rate. If such gains are recognized after the 10-year period, but prior to January 1, 2036, a 5 percent income tax rate will apply. Gains related to investment appreciation considered accrued after the investor becomes a Puerto Rico resident will be 100 percent exempted from Puerto Rico income taxes.

Act 241-2014 of December 22, 2014, amended Act 22 to provide that “resident individual investor” may transfer or donate freely, inter-vivos, and at their own discretion all or part of their assets to the trusts described above, irrespective of whether the assets transferred or donated are tangible or intangible in nature; where the property is located, and the transfer, donation, testamentary disposition and /or the terms and conditions of such trust is inconsistent or to the contrary to any legal or regulatory provision in Puerto Rico, including but not limited to the provisions of the Civil Code of Puerto Rico, including community property and forced heirship rules. Therefore, “resident individual investors” covered under Act 22 should consider buying property via PR LLCs wholly owned by trusts. Act 241 also shortened the no-residency requirement from 15 years to 6 years prior to the enactment of Act 72.

Act 187-2015 of November 17, 2015 amended Act 22 to require individuals who apply for an Act 22-2012 tax decree after November 30, 2015 to purchase a residential property in Puerto Rico as a condition to receive such decree. The Department of Economic Development and Commerce of Puerto Rico issued Circular Letter 2015-003 on December 23, 2015 which provides that individuals must purchase the residential property within two years from the date they become residents of Puerto Rico. Failure to comply with this requirement would result in the retroactive revocation of the Act 22-2012 tax decree. Act 187-2015 of November 17, 2015 further require individuals who apply for an Act 22-2012 tax decree after November 30, 2015 to open a personal or business deposit account in a bank or cooperative operating in Puerto Rico.

AMENDMENTS TO ACT 22- (BDO Puerto Rico www.bdopr.com)

The Governor of Puerto Rico also signed into law, on July 11, 2017, Senate Bill No. 369 as Act 45 (“Act 45”), which amends Act 22 of 2012, as amended, known as “Act to Promote the Relocation of Individual Investors to Puerto Rico” (“Act 22”) by establishing new requirements to the Annual Report.

Annual Report Requirements

Act 45 requires that with the Exempt Annual Report for the first year as a bona fide resident of Puerto Rico, the grantee include evidence of Form 8898 (Statement for Individuals Who Begin or End Bona Fide Residence in a U.S. Possession) filed with the Internal Revenue Service, or its equivalent filed with a foreign jurisdiction in the case of residents of a foreign jurisdiction other than the United States, notifying the intention to become a bona fide resident of Puerto Rico.

Furthermore, every year after becoming a bona fide resident of Puerto Rico, the grantee shall submit evidence of annual contributions of at least \$5,000 to non-profit entities operating in

Puerto Rico and duly certified by the Puerto Rico Treasury Department under Section 1101.01(a)(2) of the Puerto Rico Internal Revenue Code, that is not controlled by the grantee.

Exportation of Services

Act No. 20-2012 of January 17, 2012 (Act 20), also known as the Act to Promote the Exportation of Services (the “Export Services Act”), Puerto Rico seeks to establish itself as an international center for the export of services by encouraging local service providers to expand their services to persons outside of Puerto Rico in aid of promoting the development of new businesses in Puerto Rico and stimulating the inbound transfer of service providers to Puerto Rico.

The Export Services Act allows business enterprises, ranging from advertising, shared services centers and trading companies to accounting and legal services, to benefit from special tax rates applicable to income derived from services rendered to customers from outside Puerto Rico. Services for foreign markets are services performed for nonresident individuals or foreign entities that have no nexus with Puerto Rico. Services provided for a U.S., non-Puerto Rico client would qualify. In other words, the eligible service is not, and will not be, related to the conduct of a trade, business or other activity in Puerto Rico. For example, warehousing and distribution services for products manufactured outside of Puerto Rico and to be distributed to markets outside of Puerto Rico will be considered eligible services.

To enjoy the benefits granted under the Export Services Act, the service provider must request and obtain a tax exemption decree on or before December 31, 2020. Such a decree will have a term of 20 years, renewable for 10 additional years, provided certain conditions are satisfied, such as keeping a minimum of five (5) full-time jobs in Puerto Rico. Circular Letter 2015-003 further provides that the five full-time job requirement shall be met within two years from the date the business begins operations. The tax exemption decree will constitute a contract with the Puerto Rico government not subject to subsequent legislative changes. During the term of the decree, the service provider will enjoy: (i) a 4 percent flat income tax rate on export services income, (ii) 100 percent tax-exemption for distributions from earnings and profits derived from the export services income, (iii) 90 percent exemption from property taxes (100 percent exemption during the first five years of operations, in the case of certain eligible services), and (iv) 60 percent exemption from municipal license taxes (90% tax exemption if business operates in the industrial development zone constituted by the municipalities of Vieques and Culebra).

AMENDMENTS TO ACT 20 – (BDO Puerto Rico -www.bdopr.com)

On July 11, 2017, the Governor of Puerto Rico signed into law House Bill 878 as Act 43 (“Act 43”). Act 43 amends Act 20 of 2012, as amended, known as the “Act to Promote the Export of Services” (“Act 20”). These amendments include “Medical Tourism Services” and “Telemedicine Facilities” as “Eligible Services” under Act 20. Also, Act 43 eliminates the minimum employment requirement of five employees, and eliminates bureaucratic restrictions and requirements that limit the concession of tax incentives, in order to increase the growth of the service sector in the economy, in lieu of said requirements the Secretary of the Department of Economic

Development and Commerce (the “Secretary”) is awarded the authority to impose requirements for employment, financial investment and economic development measures at his own discretion.

Additional Eligible Services Under Act 20 -Act 43 adds “Medical Tourism Services” and “Telemedicine Facilities” to the list of Eligible Services of Article 3(k) under Act 20. Besides, Act 43 broadens the definition of “Trading Companies”. Previously, a Trading Company had to derive 80% of their gross income solely from trading activities to be considered as such. The amendment allows the inclusion of other export eligible services’ gross income to meet the 80% threshold.

Ordinary Procedure for the Act 20 Decree -Act 43 eliminates the fixed employment requirement and empowers the Secretary to establish by regulation the criteria to evaluate applications. These criteria will include, but are not limited to: job creation; Capital investment; or Direct or indirect contributions to the economy. The Secretary may require that a certain number of employees or independent contractors, (residents of Puerto Rico or domestic entities dedicated to trade or business in Puerto Rico) are hired to conduct its operations. With respect to Telemedicine Facilities, at least 30% of the hired doctors must be residents of Puerto Rico.

Those businesses with a tax exemption decree or with submitted applications pending approval, that already have direct employees under contract, will not be allowed to dismiss such employees in view of Act 43

Housing Incentives

Act No. 216 of 2011, as amended (“Act 216”), grants individual residents and non-residents of Puerto Rico various incentives for sale and purchase of certain real property (“Eligible Property”) executed between July 1, 2013 and December 31, 2017 (the “Closing Period”).

Currently, Eligible Property under Act 216 includes newly constructed residential real property acquired from a developer (“Newly Constructed Property”) that is suitable for family occupation, and has not been previously occupied.

Some of the benefits provided under Act 216 include:

- 100% tax exemption from income taxes, including the alternative minimum tax, imposed on the capital gain derived from the sale of Newly Constructed Property acquired during the Closing Period;
- 100% tax exemption on property taxes of Newly Constructed Property acquired during the Closing Period, available for 5 years after the acquisition (starting on January 1, 2011 and ending on December 31, 2022); and
- 100% exemption from the stamps, fees, vouchers and other transfer costs applicable to

the execution and recordation of documents related to the sale, purchase, rent and/or mortgage of Newly Constructed Property sold during the Closing Period.

Act No. 132 enacted on September 2, 2010 provides a 100% income tax exemption (including total exemption from income tax withholding) on residential rental income derived by PR residents and non-residents and these benefits expire on December 31, 2020 (in order to claim the benefits the lessor must file a PR income tax return to declare the rental income as 100% exempt).

International Financial Center

On September 25, 2012, Puerto Rico enacted Act No. 273 of 2012, also known as the “International Financial Center Regulatory Act” (the “Act”). The Act provides tax exemptions to businesses engaged in eligible activities in Puerto Rico. To avail from such benefits, a business needs to become an international financial entity by applying for a permit and license and obtaining a tax exemption decree. An IFE may be any person, that is not an individual, and that is incorporated or organized under the laws of Puerto Rico, the United States, or any other country. The IFE may submit copy of its license to the Secretary of the Department of Economic Development and Commerce of Puerto Rico, and may request issuance of a tax decree that provides full detail of tax rates and conditions mandated by the Act. The decree will be considered a contract between the Government of Puerto Rico and the IFE. Once the IFE obtains the tax exemption decree, the benefits granted will be secured during the term of the decree irrespective of any changes in the applicable Puerto Rico tax laws. The decree will be effective during a period of 15 years. Two extensions of 15 years each may be available.

International Insurers and Reinsurers Act

An international insurer is an entity organized in Puerto Rico to offer direct insurance or reinsurance outside of Puerto Rico. International reinsurers may assume risks in Puerto Rico upon compliance of the requirements thereof. An international insurer holding company is a Puerto Rico corporation that holds interest in an international insurer or another international insurer holding company. A foreign insurer may establish a branch as an international insurer.

The International Insurers and Reinsurers Act, Act 399 of 2004, provides the following tax exemptions to insurers or reinsurers that apply and qualify for an international insurer license under the provisions of such Act 399-2004:

- 100% tax exemption on income derived by international insurer or international insurer holding company, including income derived by reason of the liquidation and/or dissolution of its operations in Puerto Rico;
- 100% tax exemption on dividends and distributions to its shareholders;
- 100% tax exemption from municipal license tax;
- 100% tax exemption from property tax; and
- 100% tax exemption on interest, dividends or distributions paid to foreign entities or non-residents, not engaged in business in Puerto Rico.

The benefits granted to international insurers under Act 399-2004 facilitate the following business opportunities, among others:

- Alternative Risk Management strategies as Captive or Associated captives insurers.
- Insurers or Reinsurers vehicle to enter Latin America or US Markets.
- Special Purpose Vehicles.
- Vehicle for Integrated Insurance Plans.
- Corporate reorganization using International Insurers Holding Companies.
- Segregated Assets Plans to serve High Net Worth Individual market.
- Securitization Programs.

EB-5 Visa Investor Program

The EB-5 Visa Program was established in 1990 by the US federal government to provide opportunities for: (i) foreign investors to obtain a Green Card and US citizenship, (ii) companies and developers to obtain capital for their projects or operations, and (iii) agents and professionals to obtain fees for implementing the EB-5 investments.

The EB-5 Visa Program authorizes up to 10,000 Green Cards per year, for foreign individuals who invest at least \$500,000 in qualifying projects in US (including Puerto Rico) or \$1,000,000 if a project is not in a qualifying location within US (including Puerto Rico). The key criteria for qualification are:

- Project must be located (i) in a Targeted Employment Area ("TEA") which means a census tract or series of census tracts with an unemployment rate at least 150% of the national average; or (ii) in a rural area, which is any area outside a metropolitan statistical area or outside the boundary of any city or town having a population of 20,000 or more;
- The investment is mostly made for at least a period of 5 years, and must have some level of risk; and
- The project must produce at least 10 full-time jobs for U.S. workers per investor.

Also, the EB-5 visa can be obtained through a Regional Center, which is a private or public entity set up to promote economic growth in a specific region. To be a Regional Center, the entity has to make an application and be approved by the United States Immigration and Citizenship Service. The approval is for a specific geographic area and for specific industry codes. A Regional Center cannot do an EB-5 project outside of that specific authority. There are proposed Regional Centers that will be established in Puerto Rico in the near future. Becoming a US Citizen through an EB-5 Program while residing in Puerto Rico has US estate tax advantages (you should consult your tax advisor in relation to this topic.)