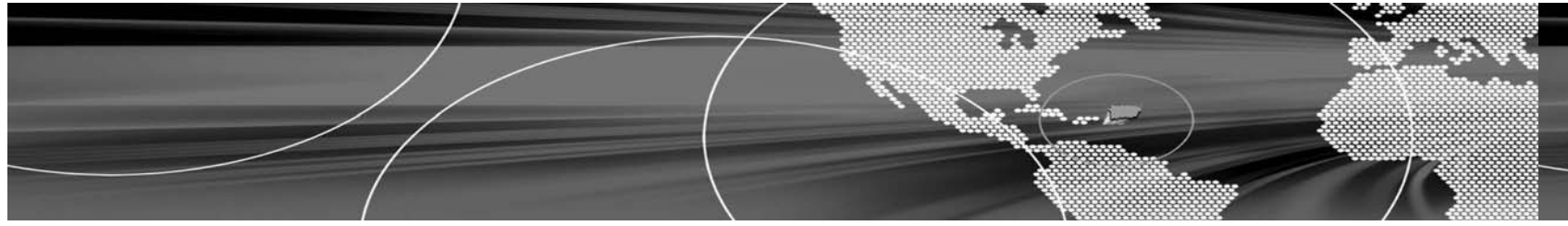




A Guide to ***Doing Business
in Puerto Rico***





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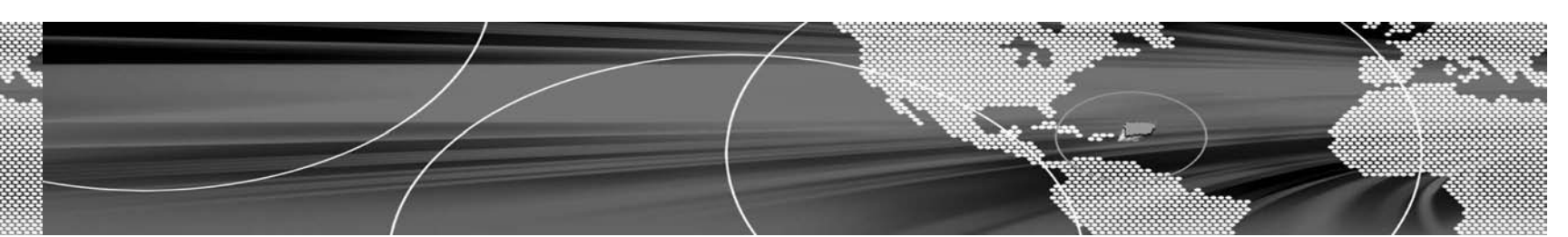
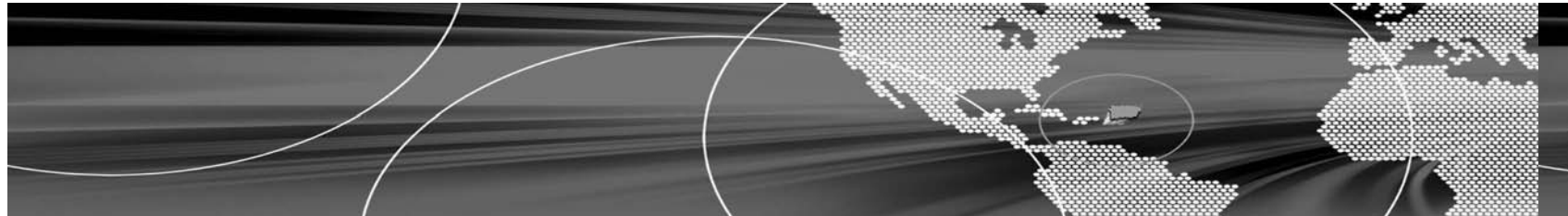
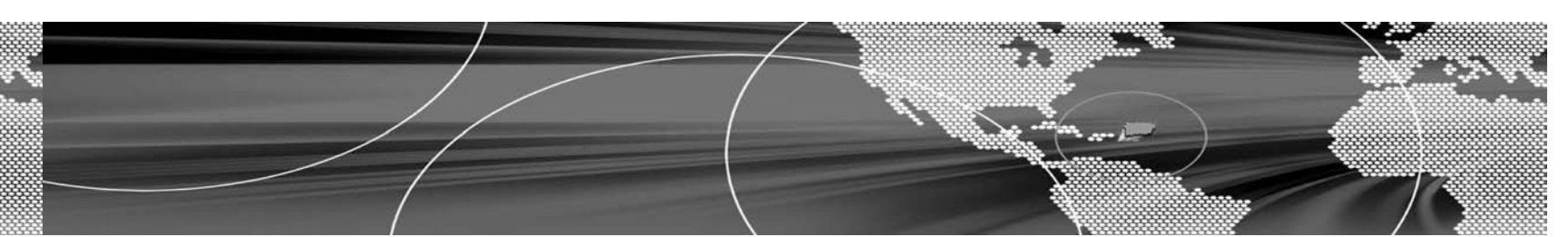


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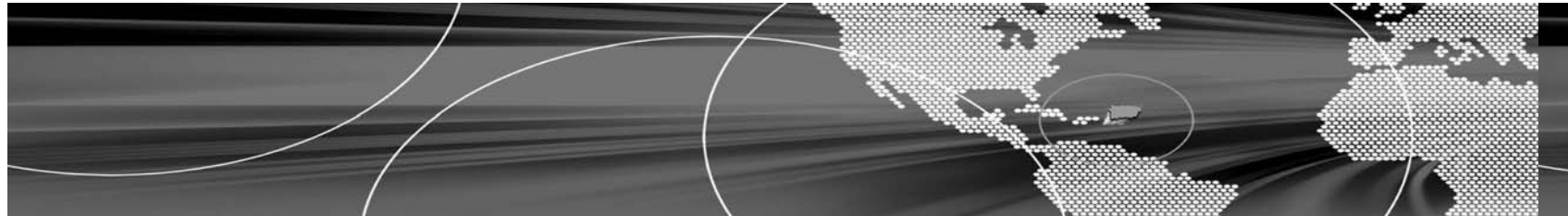
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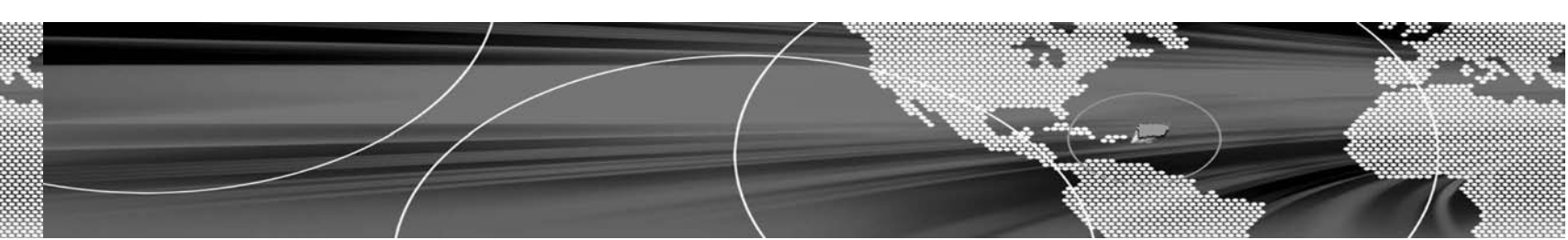
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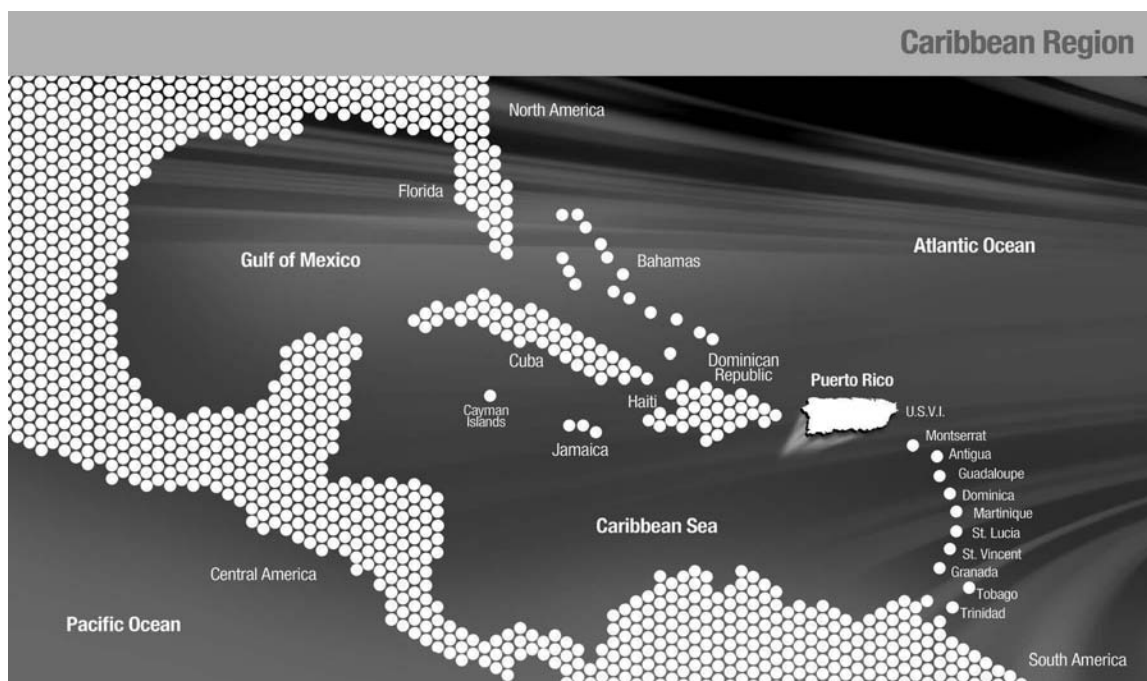


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Chapter 1: An Introduction to Puerto Rico



1. Historical Overview

For thousands of years various Amerindian groups inhabited what is today Puerto Rico. When Christopher Columbus arrived in 1493 and claimed the island for the Spanish Crown, it was dominated by a group of Arawak Indians known as Taínos, who called the island “Borikén” (Borinquen in Spanish). Spain controlled the island for most of the next four centuries until 1898, when it ceded Puerto Rico to the United States as part of the Treaty of Paris, which ended the Spanish-American War.

Puerto Ricans were granted U.S. citizenship in 1917 and the right to elect their own governor in 1947. Puerto Rico approved a constitution in 1952 that was ratified by the U.S. Congress and approved by President Truman the same year. To this day, Puerto Rico remains a territory of the United States.

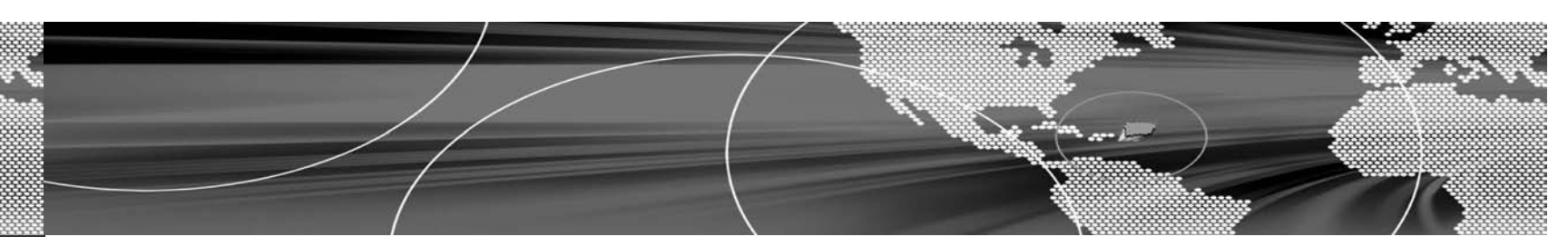
2. Geography

Puerto Rico is the easternmost island of the Greater Antilles archipelago in the Caribbean Sea, located approximately 1,050 miles east-southeast of Miami. San Juan, Puerto Rico’s capital and principal city, lies on the island’s northern coast. A typical flight between San Juan and Miami takes about 2.5 hours.

Puerto Rico consists of the main island of Puerto Rico and various smaller islands, including the island municipalities of Vieques and Culebra. The main island is approximately 100 miles (160 km) by 35 miles (60 km) with an area of about 3,400 square miles (8,800 square kilometers). Puerto Rico comprises a mountainous interior surrounded by coastal plains in the north and south.

3. Government Systems

As a territory of the United States, Puerto Rico falls within the U.S. federal system and is subject to both U.S. federal and local law. Specifically, the U.S. Constitutional and most federal laws and regulations apply in Puerto Rico, and the island also has its own constitution, laws, and regulations that apply to the extent they are not contrary to federal law. Puerto Rico’s local government, like those of the federal government and the states, includes an executive, a legislative and a judicial branch.

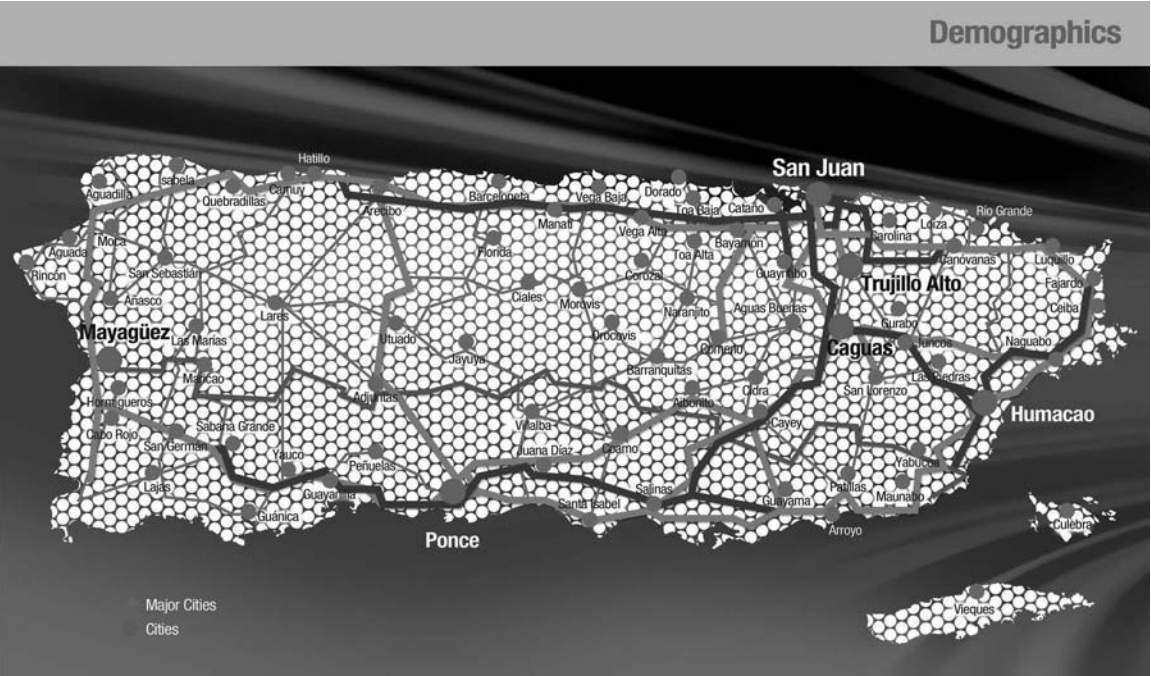


Although Puerto Ricans are citizens of the United States, U.S. citizens living in Puerto Rico do not have the right to vote in presidential elections. They have a non-voting representative—called a resident commissioner—to the U.S. House of Representatives but no representative to the Senate. Passports are not required for U.S. citizens traveling between Puerto Rico and the United States. International visitors must meet the entry requirements established by the United States.

4. Demographics

After four hundred years of Spanish rule and more than one hundred years as an American territory, Puerto Ricans ethnically and culturally blend Spanish, Taino, African, and American influences. According to the U.S. Census Bureau’s 2010 Census data, 3,725,789 people live in Puerto Rico. Natural-born residents are U.S. citizens. The map below highlights several of the island’s major cities, which have the following populations:

San Juan	395,326	Mayagüez	89,080
Ponce	166,327	Trujillo Alto	74,842
Caguas	142,893	Humacao	58,466



5. Language

Puerto Rico’s official languages are Spanish and English. While Spanish is spoken more commonly, business is frequently conducted in English. According to the U.S. Census Bureau’s American Community Survey of 2010, of the population 5 years and over, 34% speaks English “well” and “very well”.

6. Currency and Monetary Policy

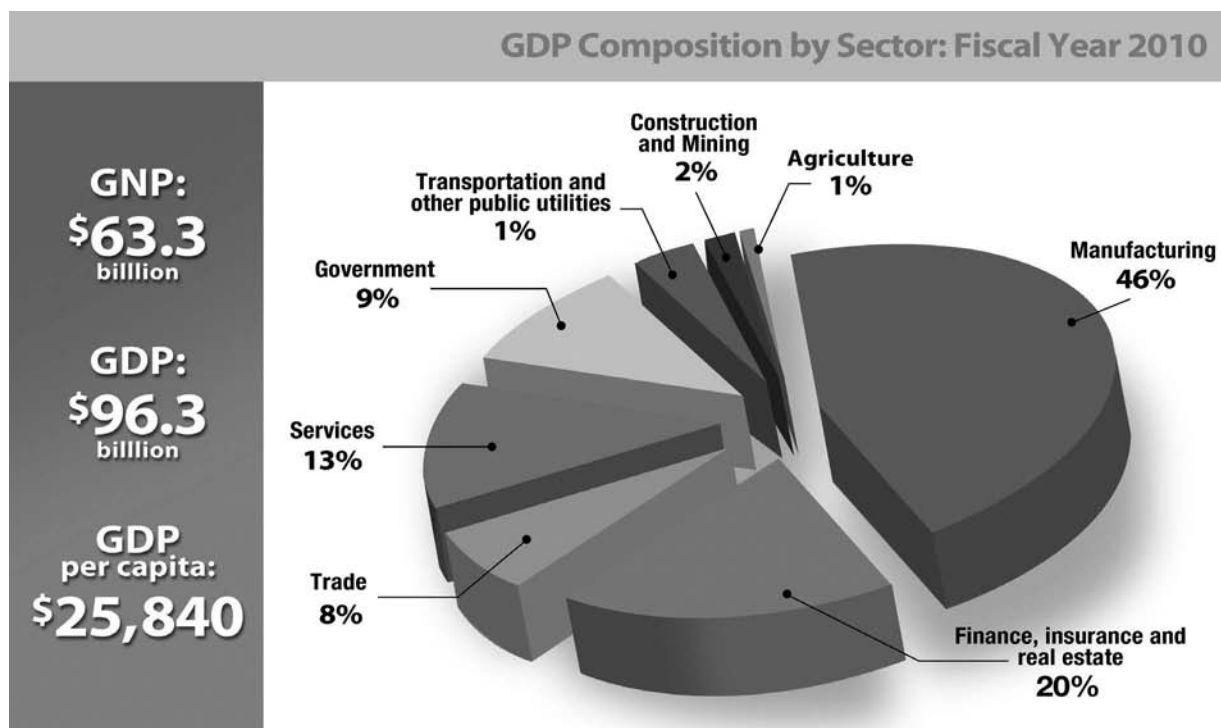
Puerto Rico's currency is the U.S. dollar. Puerto Rico operates under the U.S. monetary policy system and falls under the Federal Reserve Bank of New York, one of the 12 Federal Reserve Banks of the U.S. responsible for the Second District of the Federal Reserve System, encompassing New York State, the 12 northern counties of New Jersey, Fairfield County in Connecticut, Puerto Rico and the United States Virgin Islands.

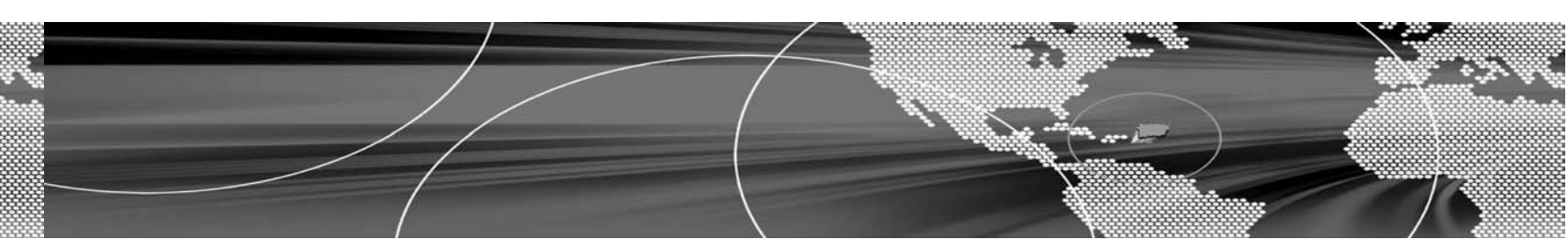
7. Macroeconomic Overview and Key Indicators

Puerto Rico enjoys a highly diversified economy and has become a formidable player in high-value added manufacturing industries which include pharmaceuticals, electronics, textiles, petrochemicals, processed foods, clothing and textiles. The service sector is playing an increasingly pivotal role in Puerto Rico's economic development contributing significantly to job creation and growth, particularly in educational and health services, professional and business services, financial and insurance services, among others.

A. Gross Domestic Product (GDP)

According to data published by the Puerto Rico Planning Board, in fiscal year 2009-2010 ending on June 30, 2010, Puerto Rico's gross domestic product (GDP) was \$96.3 billion, with a GDP per capita of over \$25,000. Manufacturing continues to be a major force in Puerto Rico's economy, responsible for 46.4% of GDP. The Puerto Rico Planning Board is the governmental organism responsible for the annual production of Puerto Rico's economic accounts.





B. Work Force

The prime allure of Puerto Rico is its highly educated and bilingual workforce. Employers have access to a large pool of qualified job candidates. According to the Puerto Rico Department of Labor and Human Resources, as of August 2011, the labor force was around 1.3 million strong, of which some 1.1 million were employed. The service sector employs the largest percentage of the workforce. More detail on Puerto Rico's workforce is available in Chapter 5.

C. External Trade

Puerto Rico has long been among the most open of economies and trade has been a central determinant of its economic performance. According to the Puerto Rico Planning Board, exports in fiscal year 2010-2011 ending on June 30, 2011 reached \$64.9 billion (f.o.b) while imports reached \$44.7 billion (c.i.f) resulting in a positive balance of trade, or trade surplus, of \$20.2 billion. Puerto Rico's main export partners are the United States (68%), Germany (8%), Netherlands (5%) and Belgium (4%) while its main import partners are the United States (51%), Ireland (16%), Singapore (5%) and Japan (4%). Puerto Rico's main exports are pharmaceutical and medicines, medical equipment and supplies, food products, and computer and electronic products. Its main imports are pharmaceutical and medicines, petroleum and coal products, basic chemicals and food products.

D. Retail Sales¹

Retail sales, an important part of consumer spending and the economy of Puerto Rico as a whole, reached \$34.7 billion in fiscal year 2010-2011. Puerto Rico has become a veritable shopping mecca and one of the most sophisticated consumer markets in the world attracting the world's leading retailers and trend-setting designers. The Institute of Statistics of Puerto Rico is now producing a seasonally adjusted retail sales report utilizing the standard methodology used by the U.S. Census Bureau.

E. Consumer Price Index (CPI)²

Puerto Rico's revised Consumer Price Index (CPI) in August 2011 registered a 4% rise, from 110.57 in August 2010 to 114.98 in August 2011. The increase was driven by rising prices in transportation, medical care, housing, and food and beverages. The average annual inflation rate for the first eight months of the 2011 calendar year was 2.7%, slightly higher than the average annual inflation rate for the first eight months of the 2010 of 3.2%. Global oil prices continue to be the main driver of price levels on Puerto Rico.

The Institute of Statistics of Puerto Rico together with the federal Bureau of Labor Statistics (BLS) and the Technical Interagency Committee launched a complete overhaul in the methodology to estimate the CPI with retroactive changes as far as the base month of December 2006. The changes showed a much tamer inflation rate during the peaks of fiscal years 2007-09. The revised index brings a more accurate estimation of consumer prices on the island.

¹ Puerto Rico Trade Company produces the Puerto Rico Retail Sales Report (Infoventas by its Spanish name) on a monthly basis

² Puerto Rico Department of Labor and Human Resources produces the Puerto Rico CPI on a monthly basis

F. Competitiveness

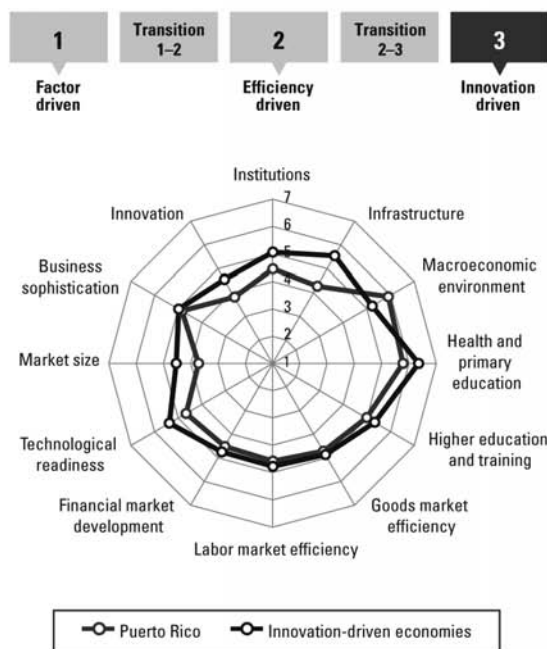
The World Economic Forum (WEF), an independent international organization committed to improving the state of the world by engaging business, political, academic and other leaders of society to shape global, regional and industry agendas, publishes on an annual basis The Global Competitiveness Report.³ This report uses a highly comprehensive index known as the Global Competitiveness Index (GCI) to rank over 140 economies worldwide in terms of their economic and institutional foundations that drive productivity. Puerto Rico was first included in the report in the WEF's 2007 publication. Puerto Rico obtained its highest ranking in the latest edition of The Global Competitiveness Report (2011-2012) making an impressive 6 notch leap from the 41st position to the 35th position. Puerto Rico's ranking is higher than any other Caribbean jurisdiction and trails only Chile (31) in all of Latin America. Puerto Rico scored high in a range of measures including: availability of scientists and engineers (9); tertiary education enrollment (11); Internet bandwidth (14); intellectual property protection (17); production process sophistication (19); quality of local suppliers (19); quality of air transport infrastructure (26) and quality of port infrastructure (29).

Puerto Rico

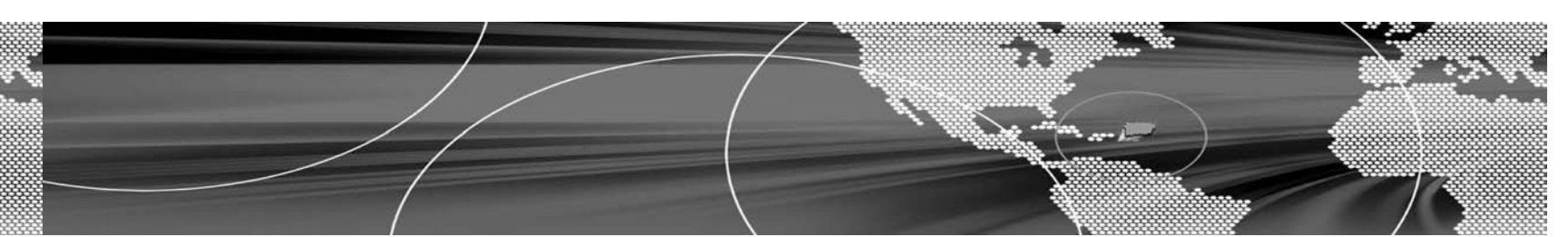
Global Competitiveness Index

	Rank (out of 142)	Score (1-7)
GCI 2011-2012	35	4.6
GCI 2010-2011 (out of 139).....	41	4.5
GCI 2009-2010 (out of 133).....	42	4.5
Basic requirements (20.0%)	41	5.1
Institutions.....	44	4.4
Infrastructure.....	55	4.3
Macroeconomic environment	17	5.9
Health and primary education.....	63	5.8
Efficiency enhancers (50.0%)	35	4.5
Higher education and training.....	29	5.0
Goods market efficiency.....	30	4.7
Labor market efficiency.....	48	4.6
Financial market development	40	4.5
Technological readiness.....	35	4.7
Market size	68	3.7
Innovation and sophistication factors (30.0%)	29	4.3
Business sophistication	27	4.8
Innovation.....	31	3.8

Stage of development



³ To obtain the WEF's most recent competitiveness report and other reports visit www.weforum.org/reports.

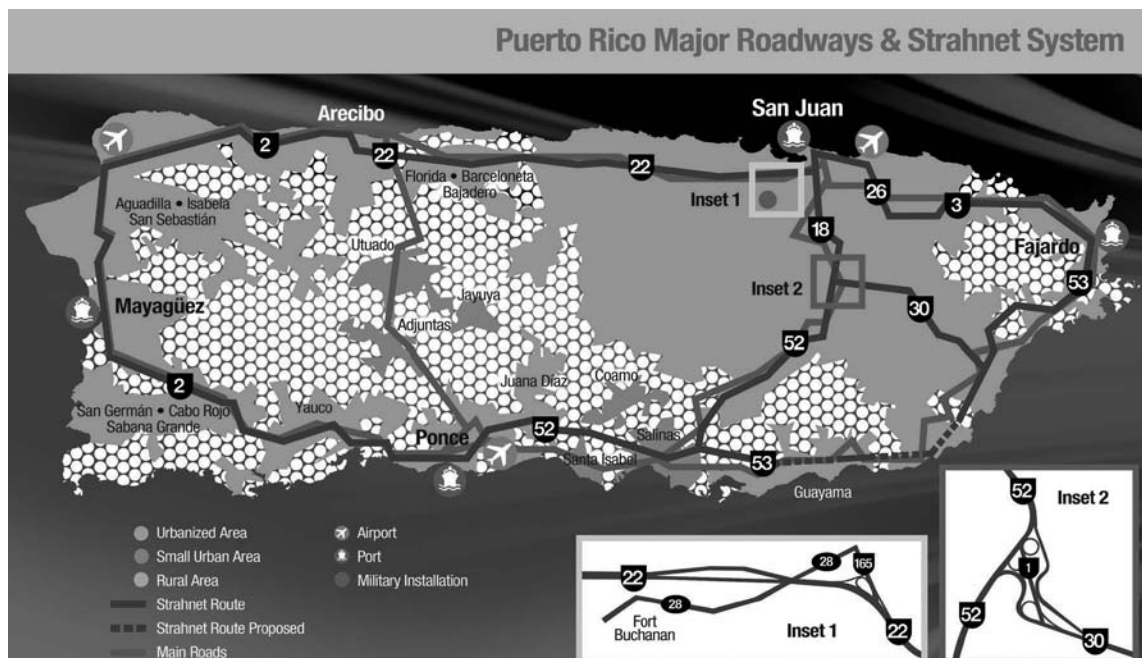


8. Infrastructure

A. Puerto Rico Ground Transportation

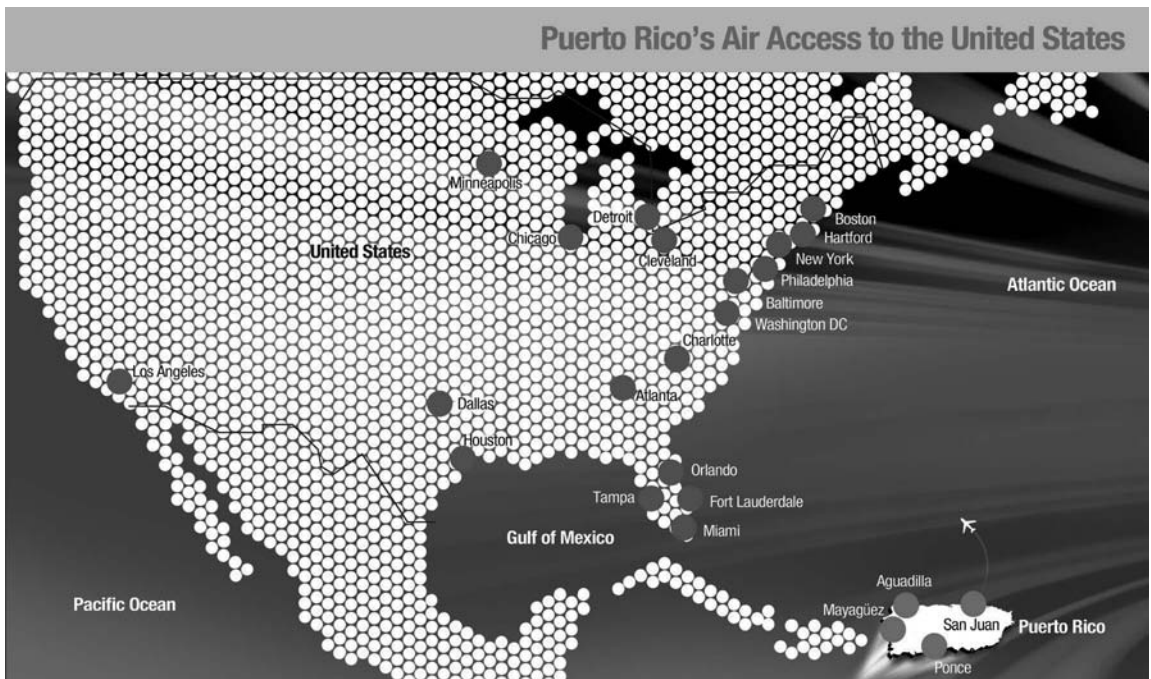
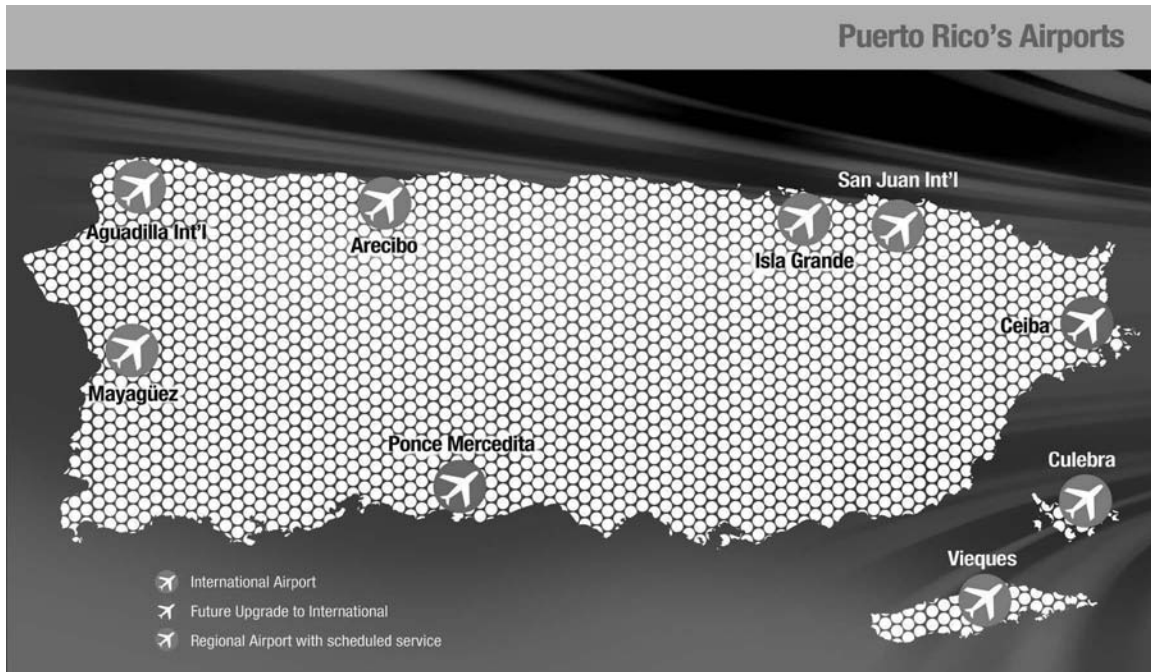
Puerto Rico's major cities are connected by a modern highway system, which, as of December 31, 2009, totaled approximately 4,629 miles and 11,947 miles of local streets and adjacent roads. The highway system comprises 387 miles of primary system highways, which are the more important interregional traffic routes and include PR-52, PR-22, PR-53, PR-66 and PR-20 toll highways, 252 miles of primary urban system highways, 959 miles of secondary system highways serving the need of intra-regional traffic, and 3,053 miles of tertiary highways and roads serving local, intra-regional traffic.

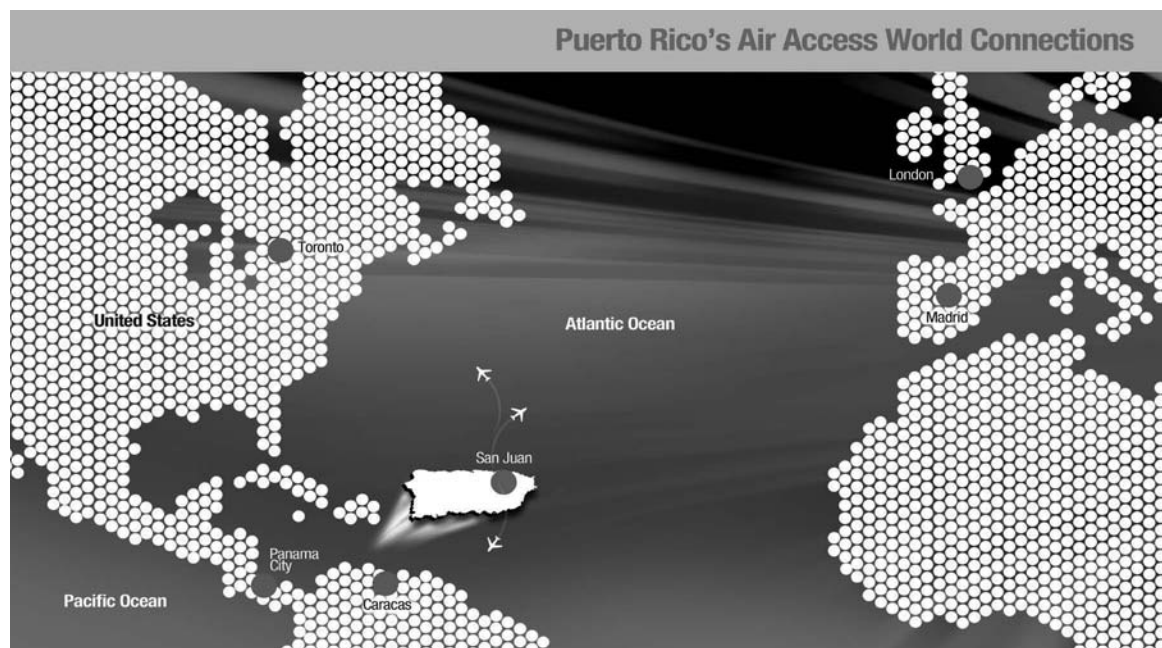
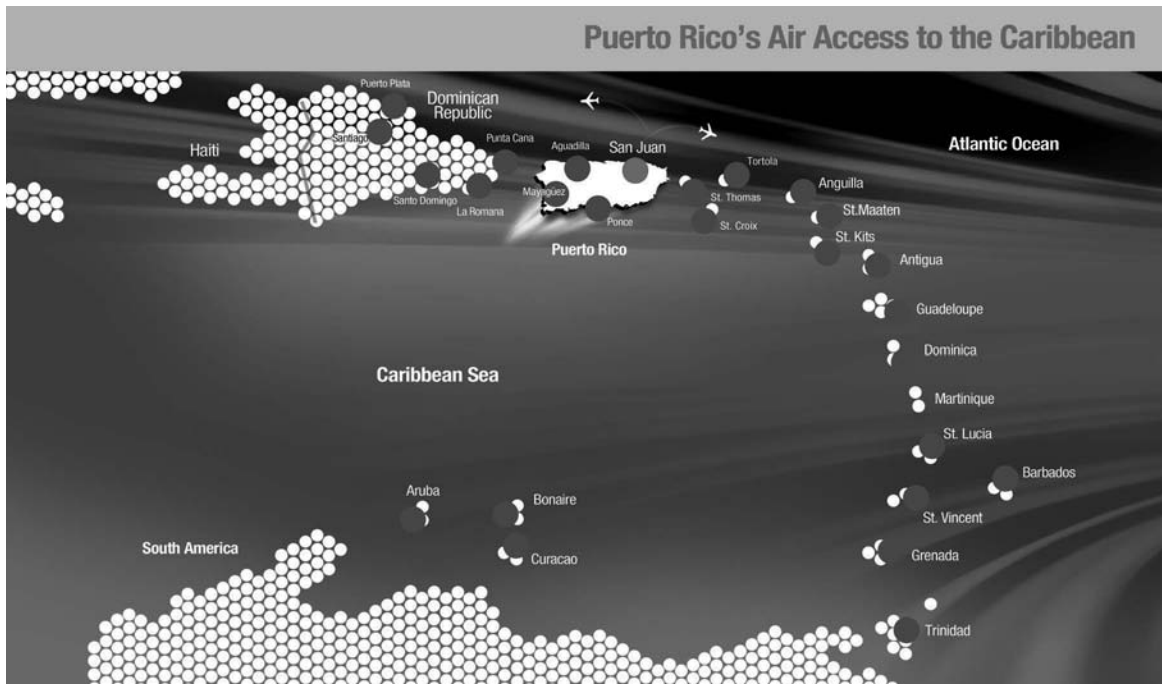
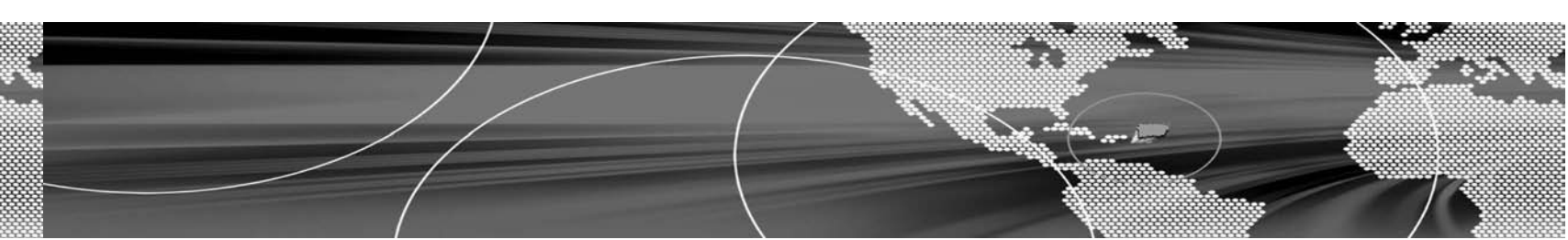
The Puerto Rico Public-Private Partnerships Authority along with the Puerto Rico Highways and Transportation Authority (PRHTA) completed the administrative concession of PR-22 & PR-5. It is the first concession of its type to be successfully achieved in Puerto Rico and represents the largest private investment in infrastructure so far in 2011 in the United States. As part of the total investment of \$1,436 million, more than \$ 350 million in estimated investment will be for improvements and maintenance of the PR-22 and PR-5. For more information on Public-Private Partnerships in Puerto Rico visit the Public-Private Partnership Authority's website www.app.gobierno.pr/2lang=en.



B. Airports

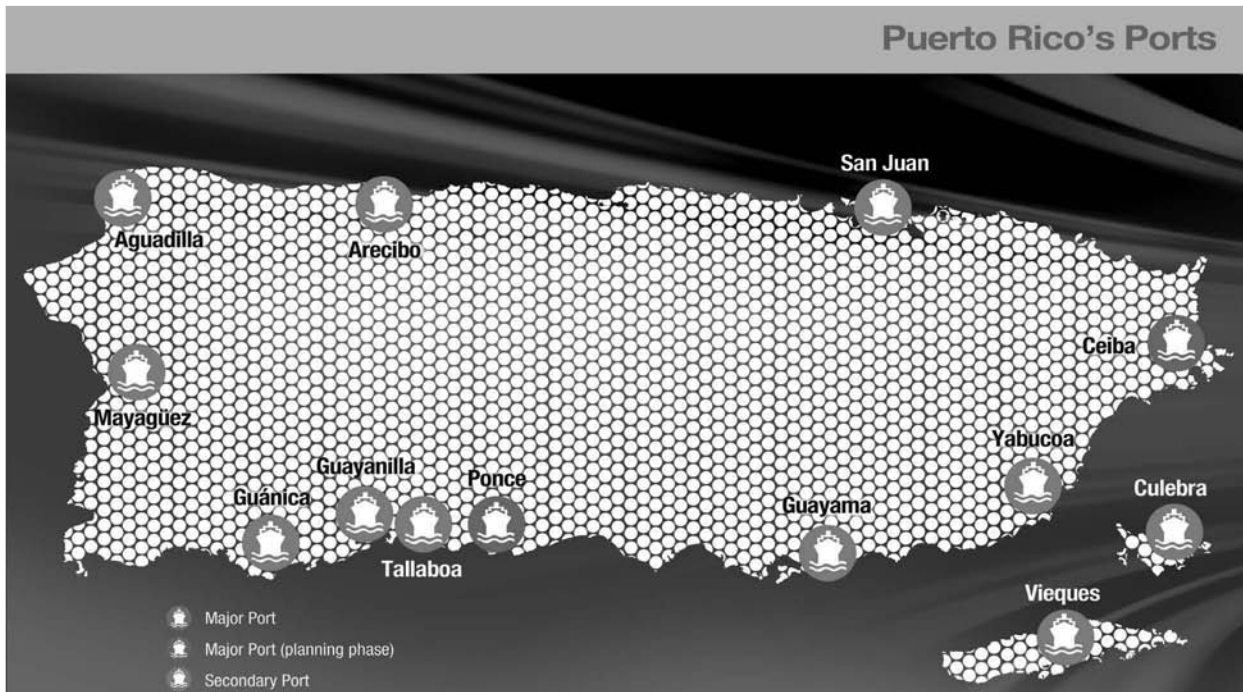
Puerto Rico's air access is by far the best in the Caribbean. Three airports - Luis Muñoz Marín International airport in Carolina (SJU), Rafael Hernández Airport in Aguadilla (BQN), and Mercedita Airport in Ponce (PSE) - have direct service to the U.S. mainland. Luis Muñoz Rivera International Airport serves as the region's hub, providing service to more than 17 cities in the U.S. and many international destinations in the Caribbean, North America, South America, and Europe. The airport receives over 10 million passengers per year, making it the busiest airport in the Caribbean.





C. Seaports

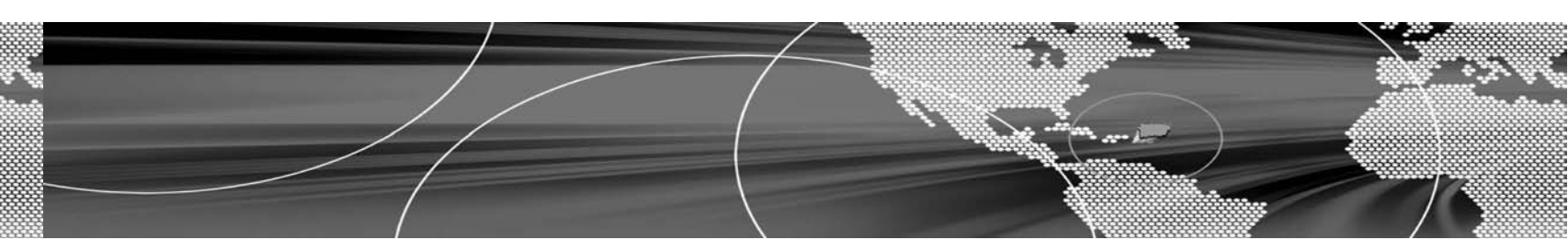
San Juan is the largest cruise ship port in the Eastern Caribbean. It is home port to several cruise ship companies and receives 1.2 million cruise ship passengers a year. San Juan, Guayanilla and Mayagüez are the island's principal cargo ports. The Port of San Juan is the 8th largest container port in the U.S. after Virginia, according to the World Top Container Ports ranking, with a throughput in 2009 of close to 1.7 million TEUs.⁴ The Port of Ponce, known as the Port of the Americas, is being redeveloped as the island's largest deepwater port and should become one of the Caribbean's principal transshipment facilities within the next few years.



D. Electric Power

PREPA has a modern electric power system that serves the entire main island of Puerto Rico and its two adjacent islands Vieques and Culebra. The cost of electric power varies depending on the type of industry, voltage level, energy consumption, load factor category, and fuel adjustments. The generating capacity of PREPA's electric system is 5,839 MW with a peak demand of 3,685 MW. The system generates, transmits and distributes electricity to close to 1.5 million clients. Electric energy is produced by five main power plants: Costa Sur, Aguirre, San Juan, Palo Seco and Cambalache. Sixty-eight percent (68%) of the total energy production is fuel oil-based; 15% natural gas (LNG); 15% coal; and approximately 2% hydro. Transmission system is comprised of 2,416 miles of 230 kV transmission lines, 115 kV and 38 kV sub transmission lines, with 175 transmission centers. Distribution lines amount to approximately 28,952 aerial miles and 1,723 underground miles. The system has 334 substations and 27 technical offices.

⁴ Container Management Magazine



On July 19, 2010 Act No. 82 of 2010, known as the “Public Policy on Energy diversification through Renewable and Alternative sources” was approved as well as Act No. 83 of 2010 also known as “Green Energy Incentives Act.” Act No. 82 of 2010 creates a Renewable Portfolio Standard, recognizing many sources of renewable energy utilizing various technologies and setting a hard target of 12% renewable energy production by 2015, 15% by 2020 with a requirement for retail energy providers to establish a plan to reach 20% renewable energy production by 2035. Act No. 83 of 2010 or Green Energy Incentives assembles under one law our existing economic incentives and reforms, organizes and standardizes incentives for the construction and use of renewable energy sources. Through the Green Energy Fund (“GEF”) the government of Puerto Rico will co-invest \$290 million in renewable energy projects over the next 10-years; initially funding of \$20 million beginning July 1, 2011 (steps up to \$40 million by FY 2016).

Customers of PREPA that qualify under Puerto Rico’s economic incentives law are entitled to a tax credit ranging from 3% to 10% of the value of their payments to PREPA. More information can be obtained by accessing PREPA’s website.⁵

E. Water

The Puerto Rico Aqueduct and Sewer Authority (PRASA) provides water and sewer service to most areas of the island. Over 97% of Puerto Rico’s population is served by the Authority’s water system, and approximately 55% of the population receives service from the Authority’s wastewater system. The water and wastewater systems’ are divided into five regions: North, South, East, West and Metro. The water system is made up of water supply facilities, including reservoirs, dams, wells, and pump stations, 129 water treatment plants and an extensive drinking water distribution system which utilizes approximately 7,500 miles of transmission and distribution mains. A continuing program to expand and upgrade the system is being carried out by the Authority. The cost of water depends on consumption and the diameter of the water meter.

Most industrial facilities are connected to a 2-inch water meter. Water quality meets the National Primary Standards established by the Environmental protection Agency (EPA) under the Safe Drinking Water Act. More information can be obtained by accessing PRASA’s website.⁶

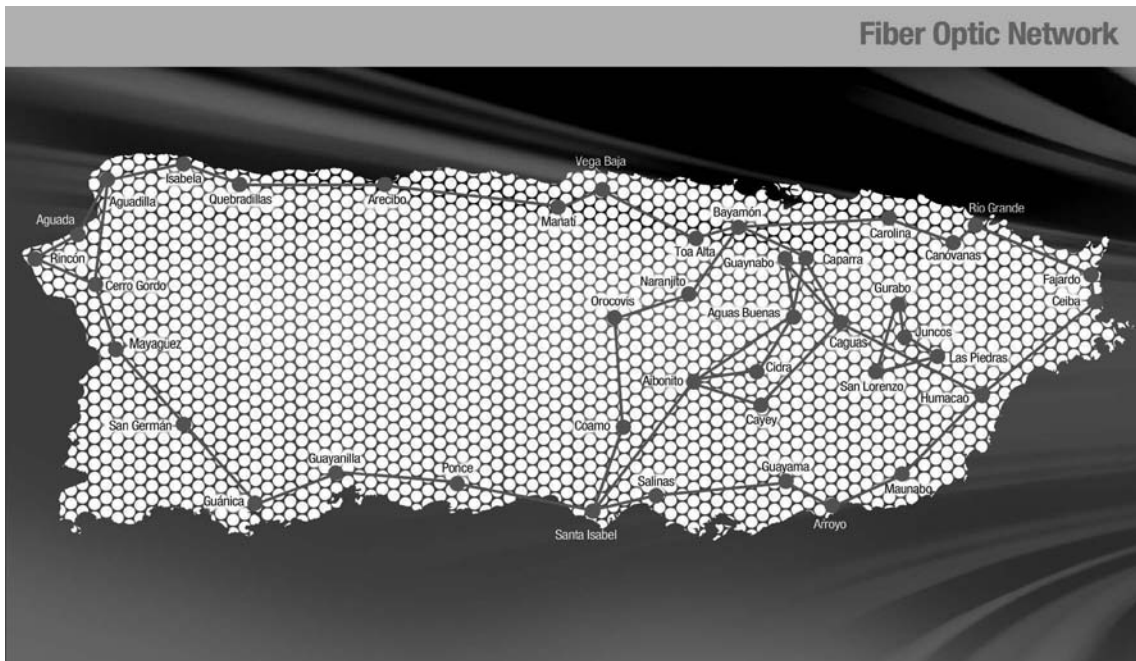
⁵<http://prepa.com/>

⁶<http://www.acueductospr.com/>

F. Communications

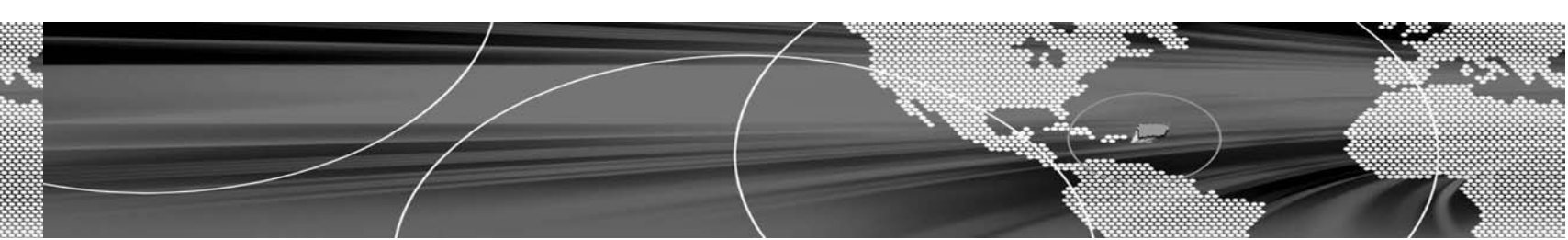
Puerto Rico has the necessary infrastructure for VoIP and broadband data connectivity to supply industry needs in landline service, wireless service, and Ethernet. Puerto Rico is connected to the mainland United States through the Puerto Rico undersea fiber-optic cable of the American Region Caribbean Optical-ring System. This connectivity provides broadband accessibility for Internet access.

On February 17, 2011, the U.S. Department of Commerce, National Telecommunications and Information Administration (NTIA) released an interactive National Broadband Map, of which Puerto Rico is a part of. The National Broadband Map is a tool to search, analyze, and map broadband availability across the United States. More information can be obtained by accessing Connect Puerto Rico's ⁷ website.⁸



⁷ Connect Puerto Rico is a subsidiary of Connected Nation which was commissioned by the Puerto Rico Office of the Chief Information Officer (OCIO) and the Puerto Rico Infrastructure Financing Authority (PRIFA) to work with all broadband providers in Puerto Rico to create an island-wide detailed map of broadband coverage.

⁸ <http://en.connectpr.org/>



G. Convention Center

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 Puerto Rico has to offer. The Convention Center offers first class space with 152,700 sq. ft. of exhibit space, a 39,500 sq. ft. state-of-the-art ballroom, and 36,200 sq. ft. of flexible meeting space divisible in 28 individual rooms. It is located in the heart of San Juan, only 7 miles from the Luis Muñoz Marín International Airport with over 7,000 hotel rooms within a short distance and will eventually incorporate residential and recreational areas as well.

The Convention Center operates under the administration of the Puerto Rico Convention Center District Authority, which also oversees the surrounding 113-acre district. The project is structured as a public-private partnership. More information can be obtained by accessing Puerto Rico Convention Center's website.⁹



⁹ <http://www.prconvention.com/>

9. Education System

During the 2009-2010 academic year there were a total 2,652 primary and secondary schools, of which 1,509 were part of the public sector and 1,143 were in the private sector.¹⁰ There are also over 100 institutions of higher learning, including universities, colleges, community colleges, and technical institutes. The largest public university in Puerto Rico is the multi-campus University of Puerto Rico. The largest private university systems on the island are the Sistema Universitario Ana G. Méndez (SUAGM), which operates the University of Turabo, Metropolitan University, and Universidad del Este; the Pontifical Catholic University, Caribbean University, Carlos Albizu University, Sacred Heart University, Polytechnic University of Puerto Rico, and the multi-campus Interamerican University.

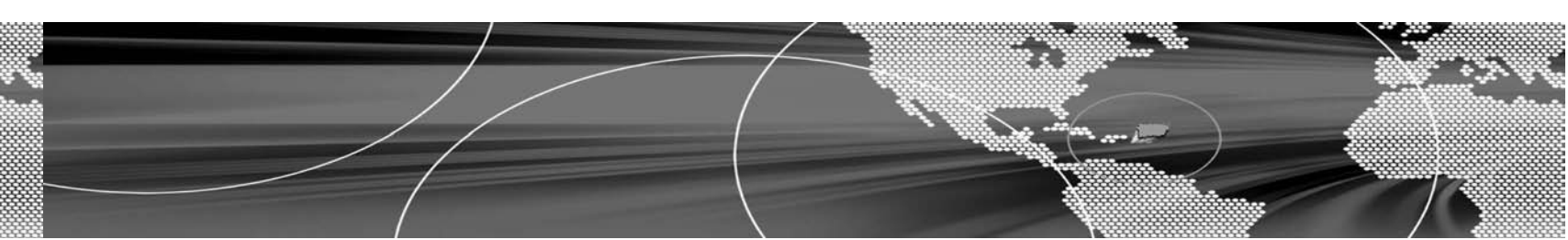
More than 35,000 university degrees are granted each year; more than 12,000 are in the sciences, mathematics, technology fields and business administration.¹¹ The School of Engineering of the University of Puerto Rico at Mayagüez (UPRM) is the premier engineering and science institution of the Caribbean and Latin America and the first producer of Hispanic engineers in the United States of America, according to the American Society of Engineering Education (ASEE). The University of Puerto Rico obtained the 20th position in the Iberoamerican Ranking SIR 2011, the tool for the analysis of the research performance of all Iberoamerican Higher Education Institutions (HEIs).

Puerto Rico's School Modernization Program, known as Schools for the 21st century, consists of the renovation and construction of 100 schools around the island which will have an economic impact of over \$750 million in construction for 2 years. All municipalities will have at least one school included in the project and the program is expected to impact approximately 45,000 students from the public education system and over 2,000 teachers. Below is a visual rendition of a public school in the municipality of Arecibo which is part of the School for the 21st century Program.



¹⁰ Public and Private Schools Profile: Academic Year 2009-2010 published by the Puerto Rico Institute of Statistics

¹¹ Integrated Postsecondary Education Data System (IPEDS)



10. Science, Technology and Research

The Government of Puerto Rico in close collaboration with the private sector is implementing a number of measures to move Puerto Rico towards becoming a truly knowledge-based economy and has taken huge steps toward creating the ecosystem necessary to attract knowledge-based activities. Act No. 150 of 2010 sponsors and promotes the participation of academics, professors and researchers from the University of Puerto Rico (UPR) in the development of intellectual property and the transfer of technology into industry by facilitating the commercialization of their research. Act. No. 208 of 2011 provides incentives for the development of the Puerto Rico Science, Technology and Research District and increases by 75% over the next decade the contribution that the Puerto Rico Industrial Development Company (PRIDCO) makes to the Puerto Rico Science, Technology & Research Trust.

The Puerto Rico Science, Technology and Research Trust was created in 2004 to act as a promotional, investment, and finance agent for activities that support research, science and technology development. As such, it promotes collaboration among the government, academic and manufacturing sectors, and it is charged with developing the infrastructure needed for maximizing the contribution of these sectors to Puerto Rico's economic development. More information can be obtained by accessing the Trust's website.¹²

The Puerto Rico Science, Technology and Research District represents a unique opportunity to position Puerto Rico in the forefront of science, technology and research & development. The District will ultimately encompass 1 million square feet of laboratory space; 396,000 square feet of office space; and, 60,000 square feet of conference/convention space. The mixed-use project also called for developing more than 5 million square feet of residential space, or some 3,000 vertical units; 405,000 square feet of retail space; and 90,000 square feet of "civic" or public space.

District spans several miles in San Juan



¹² <http://www.prsciencetrust.org/>



Chapter 2: Establishing a Business in Puerto Rico

1. Business Entities

Puerto Rico recognizes a wide range of business forms, from basic sole proprietorships and general partnerships to special purpose corporate forms and limited liability companies. Investors thus have a variety of options for optimizing liability shield and tax treatment characteristics.

On January 31, 2011, the Governor of Puerto Rico enacted Act No.1, known as the Internal Revenue Code for a New Puerto Rico which reformed Puerto Rico's tax system (referred hereto as the New Internal Revenue Code), effective January 1, 2011. Before the enactment of the New Internal Revenue Code, partnerships did not necessarily receive pass-through tax treatment, and not all corporations necessarily face double taxation.

Instead, both partnerships and corporations used to face taxation both at the partnership/corporate and partner/shareholder levels as the default rule, but both have the option of electing pass-through tax treatment if they meet certain criteria. Now, with the enactment of the New Internal Revenue Code, partnerships generally receive pass-through treatment.

A. Sole Proprietorship

A sole proprietorship is a business owned by a single individual who chooses not to form a partnership, corporation, or limited liability company. There are no special legal requirements for creating a sole proprietorship other than the normal requirements for starting a trade or business.¹³ Sole proprietorships are not juridical entities and cannot enter into contracts or sue or be sued in their own name. Accordingly, a sole proprietorship provides no liability shield for its owner and generally terminates upon the death of its owner. Likewise, it is not taxed separately, and all income is passed through to the owner. Owner is taxed at their individual rates.

A sole proprietorship may operate under a trade name. Trade names may be recorded at the Trade Name Registry for additional protection.

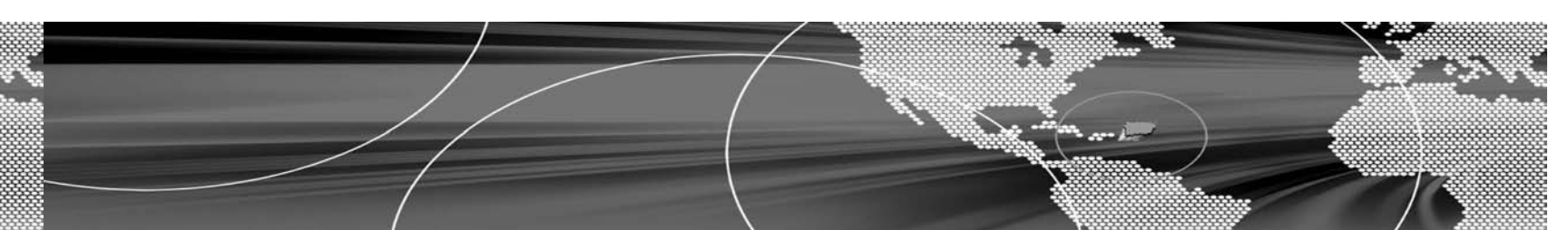
B. Partnerships

A partnership is an organization of two or more natural persons or juridical entities to carry on a business for profit pursuant to a partnership agreement. Partnership agreements (except those for limited liability partnerships and special partnerships) need not comply with any statutory formalities and need not be recorded in the Department of State. However, in order to own real property, a partnership must have its partnership agreement incorporated into a public deed prepared by a notary public.

Several types of partnerships are recognized in Puerto Rico, and partnerships may be organized under the Civil Code, the Commercial Code, or the Limited Liability Partnership Act. Generally, however, partnerships have some common characteristics. The Civil Code treats a partnership as a juridical entity separate from its owners (i.e., the partners). A partner acting within the apparent scope of his authority under the partnership agreement can bind the partnership. Thus, the partnership is liable to a third party for the authorized acts of its partners. Except for partners in limited liability partnerships and limited partners of limited partnerships and special partnerships, the liability of the individual partners is unlimited and joint with respect to losses, damages, disbursements and obligations.

As mentioned above, now upon the enactment of the Internal Revenue Code for a New Puerto Rico, as in most states, Puerto Rico partnerships automatically provide pass-through tax treatment. The tax treatment of partnerships and their partners is similar, but not identical to the treatment under the United States Internal

¹³ As discussed in more detail below, this includes obtaining an Employer Identification Number (for those sole proprietorships with employees other than the owner), registering with the Registry of Businesses at the Puerto Rico Treasury Department, and registering with the Compulsory Business Registry at the Puerto Rico Trade Company.



Revenue Code. Partnerships are not subject to tax at the partnership level; instead, they are subject to tax at the partner level. Partners are subject to tax based on their distributable share of the partnership's income items, at their applicable rate, even though the income was not distributed.

However, partnerships existing on January 1, 2011 may elect to continue being treated as a corporation. In that case, partnerships and their partners are subject to tax at the partnership level and again at the partner level to the extent the partnership makes any distributions.

(1) Civil Code Partnership ¹⁴

A civil code partnership is a contract by which two or more persons bind themselves to contribute money, property, or industry to a common fund or enterprise, with the intention of dividing the profits among themselves. There is no special formal requirement for the creation of a civil partnership. Nevertheless, for a civil code partnership to acquire real property in Puerto Rico, it must utilize a deed form to create the partnership. The civil partnership need not register with any government agency.

A civil code partnership is automatically dissolved by the death, civil interdiction, or insolvency of a partner (unless otherwise provided for in the partnership agreement), or when the business for which it was constituted ends. A civil partnership will not dissolve upon the withdrawal of a partner if the duration of the partnership is fixed and has not expired.

The partners in a civil code partnership have a subsidiary obligation with respect to the debts of the civil partnership. The creditors of a civil code partnership must first try to collect from the funds of the partnership. Only if such funds are insufficient to pay the debts owed to the creditors may the creditors move to collect from the partners. In such cases, the partners will be severally liable for the debts of the partnership.

(2) Commercial Code Partnerships ¹⁵

Commercial partnerships—or partnerships formed under Commerce Code provisions—are defined as those in which two or more persons obligate themselves to join funds, properties and/or industry to obtain profits. This definition is almost identical to the definition of partnership under the Civil Code, but commercial partnerships must meet certain formal requirements, including being executed in deed form and registering with the Mercantile Registry (failure to record eliminates the protection of the partnership contract as to third-party claims). The recording fee in the Mercantile Registry is \$1.00 per \$1,000 of capital, up to \$10,000 and 50¢ per \$1,000 above \$10,000. The Mercantile Registry only acts as a registry and has no supervisory duties. There is a Mercantile Registry in each Property Registry, and partnerships must be recorded in the Registry located in the municipality where the principal office of the business is located.

There are two types of commercial partnerships: general partnerships and limited partnerships. A general partnership is one in which all the partners bind themselves, collectively and under a firm name, to share the same rights and obligations in such proportions as they may establish. The partners of a general partnership are personally and jointly liable for all the liabilities of the partnership.

A limited partnership is made up of managing and special partners. Managing partners run the affairs of the partnership and are jointly liable for the debts and obligations of the partnership. Special partners are passive investors and may not participate in the management of the partnership, and their liability for the debts and obligations of the partnership is limited to their contribution to the partnership. However, a limited partnership cannot include the name of a special partner; if it does, the limited partner may be held jointly liable with the managing partners for the liabilities of the partnership.

¹⁴ Civil code partnerships are governed by 31 L.P.R.A. §§ 4311-4399.

¹⁵ Commercial, or mercantile, partnerships are governed by 10 L.P.R.A. §§ 1341-1347.



(3) Limited Liability Partnerships ¹⁶

Two or more natural persons, including those rendering professional services, can form a limited liability partnership under the provisions of the Limited Liability Partnership Act. They must register the limited liability partnership with the Department of State by filing a certified copy of the constituent deed accompanied by a \$100 fee. Registration is valid for one year and must be renewed annually by filing a renewal application and a \$110 revenue voucher. The name of the partnership must include the words “limited liability partnership” or “LLP”.

Generally, a partner in a limited liability partnership is not personally liable for the debts and obligations of the partnership or for negligent or unlawful acts of another partner or employee not supervised by the partner, provided he had no prior knowledge of such acts. However, the partner may be held personally liable for partnership debts and obligations that arise out of an error, omission, negligence, incompetence, or illegal act committed by that partner or in which that partner was involved, directly or through any person under his or her control or supervision or of which that partner had notice or knowledge.

In Puerto Rico, foreign limited liability partnerships are permitted, but permission from the Secretary of State is required to operate both a foreign LLP and domestic LLP.

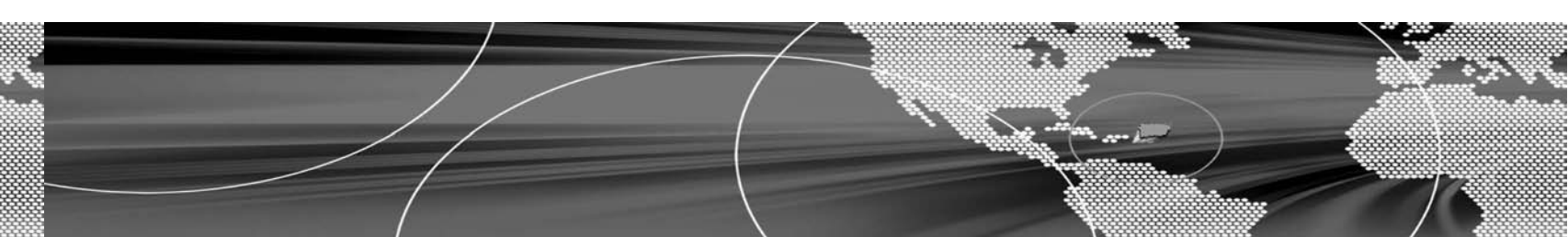
(4) Special partnerships (Subchapter D of Chapter 11 Election)

Artain corporations and partnerships that have made an election to be taxed under Subchapter D of Chapter 11 of the Internal Revenue Code for a New Puerto Rico, receive pass-through tax treatment. That is, Special Partnerships do not generally pay any income taxes at the business-entity level, and their income or losses are divided among, and “passed through” to, their partners, who pay taxes on the distributable share of such income, at their applicable rates. An effective election must have been made on or before December 31, 2011 in order for the Subchapter D of Chapter 11 of the Internal Revenue Code for a New Puerto Rico to be applicable and receive pass-through tax treatment.

To be eligible, a Special Partnership must derive at least 70% of its gross income from sources within Puerto Rico during each taxable year, and at least 70% of such income must be from one of the following eligible activities:

- construction;
- land development;
- the substantial rehabilitation of buildings and structures;
- sale or rental of buildings or structures;
- manufacturing which generates substantial employment;
- tourism;
- agriculture;
- exportation of goods or services;
- the production of feature films;
- the construction, operation or maintenance of public roads and adjoining facilities; or
- exempt energy production business.

¹⁶ 10 L.P.R.A. §§ 1861-1867.



C. Corporations

(1) Domestic Corporations ¹⁷

Puerto Rico's General Corporation Law is based on Delaware's.¹⁸ In general terms, a corporation is an entity separate and distinct from its shareholders, directors, and officers. It has the power to enter into contracts, hold property, and sue and be sued on its own name; it also has continuity of life and free transferability of ownership interests.

A typical corporation's structure consists of three main groups: directors, officers, and shareholders. In the most basic terms, the corporation is owned by its shareholders, the shareholders choose the directors, and the directors are charged with overseeing the management of the corporation, which is handled by the corporate officers. Directors must carry out their duties in good faith and without conflicts of interest; officers must perform reasonably and in good faith. The liability of directors and officers may be indemnified by the corporation. The liability of corporate shareholders for the acts of the corporation, except in certain cases, is limited to their investment in its stock.

Any person or juridical entity can form a corporation by filing articles of incorporation—signed by the incorporator(s) with the proposed corporation's name, street address, business purpose (can be stated as “any legitimate matter for which a corporation may be created”), incorporators' name and authorization, stock information, and directors' names and address—with the Corporate Division of the Department of State, along with a filing fee. De facto corporations are not contemplated under the Puerto Rico General Corporation Law. If shares have been issued, the articles of incorporations can be amended by the board of directors with shareholder approval. If no shares have been issued, the articles of incorporation can be amended by the directors (if they have been named) or the incorporators (if the directors have not been named).

The management of a corporation is typically carried out pursuant to by-laws, which may be adopted or amended at incorporation by the incorporator(s) or thereafter by the stockholders or, if permitted by the articles of incorporation, by the directors.

Puerto Rico corporations must maintain a designated principal office and agent in Puerto Rico for service of process.

Ownership of a corporation is effected through ownership of the corporation's capital stock, which may be issued in various classes with various rights and restrictions. Shares of corporate stock are personal property. Shareholders typically must hold meetings at least once per year. The law identifies certain corporate actions, and the articles of incorporation may specify others, that must be approved by the shareholders. Nonresidents of Puerto Rico and non-U.S. citizens may own stock and serve as directors and officers of a Puerto Rico corporation.

Corporations must file an annual report on or before April 15. Annual reports must be filed electronically by an officer of the Corporation, and in the case of a Puerto Rico corporation whose annual volume of business exceeds \$3,000,000, must be accompanied by the Corporation's balance sheet at the close of the preceding fiscal year, audited by a certified public accountant licensed in Puerto Rico who cannot be a stockholder or employee of the Corporation. Each annual report must be accompanied by a fee of \$100.

Corporations can merge or consolidate with one another (in a merger, one of the corporations survives; in a consolidation, a new corporation is formed). In either event, the stockholders and creditors of the non-surviving corporations become stockholders and creditors, respectively, of the surviving corporation, and the surviving corporation takes on the rights and liabilities of the merged/consolidated corporations. Where permitted by the law of a foreign corporation's state of incorporation, Puerto Rico law allows for merger with a non-Puerto Rico corporation.

¹⁷ General Corporations Act, Act No. 164 of 2009

¹⁸ 8 Del. C. §§ 101; 501; 601.



(2) Foreign Corporations ¹⁹

All corporations that are not organized under Puerto Rico laws are considered foreign corporations. Prior to conducting business in Puerto Rico, foreign corporations must register with the Puerto Rico Department of State, which will usually permit a foreign corporation to do business in Puerto Rico as a matter of course, so long as the proposed business is permitted and no other corporation is doing business under the same name.

A foreign corporation that fails to register to do business in Puerto Rico will not be allowed to initiate judicial proceedings in Puerto Rico until it is registered. Indeed, a court may suspend a judicial proceeding until a foreign corporation provides evidence that it is registered to do business in Puerto Rico. Courts can also order a foreign corporation to cease all business activities in Puerto Rico until it is duly registered to do business. Nonetheless, the mere fact that a foreign corporation is not authorized to do business in Puerto Rico will not affect the validity of its corporate actions in Puerto Rico or its right to defend itself in a proceeding in Puerto Rico.

The fees required by the State Department to process and issue the certificate of registration are \$110. Legal process against the corporation may be served on its authorized resident agent, who must be either a natural or judicial person residing in Puerto Rico, but cannot be a stockholder, officer, or director of the corporation.

(3) Professional Corporations ²⁰

A professional corporation is formed for the purpose of rendering the type of professional services that require a license from the Government of Puerto Rico. All shareholders must be individuals licensed by the Government to render the professional services offered by the corporation, and those services must be rendered through the corporation's officers, employees, and agents.

Officers, employees, and agents of a professional corporation are fully and personally liable for any negligent act or omission, unlawful act, or for any culpable conduct that arises from the rendering of professional services on behalf of the corporation, whether committed by such officer, employee, or agent or by any person under his or her direct supervision or control. In addition, the professional corporation is held jointly liable up to the aggregate value of its assets for the negligent or unlawful acts or for the culpable conduct of its officers, employees, and agents while offering professional services on behalf of the corporation. But shareholders who were not involved in the negligent or unlawful act or omission or culpable conduct are not personally liable for the damages caused by them. The professional corporation is not liable for the individual debts of its shareholders. Likewise, shareholders of the professional corporation are not liable for the liabilities of the professional corporation that are not related to negligent acts in the rendering of professional services.

The annual report of professional corporations must certify that its shareholders, directors, and officers are duly licensed, certified, and registered to render the professional services of the corporation in Puerto Rico. Non-Puerto Rico corporations may not qualify as professional corporations.

(4) Close Corporations ²¹

Close corporations provide structural flexibility to corporations owned by a relatively small number of shareholders that do not intend to go public within a short period of time. To qualify as a close corporation, the certificate of incorporation must include, among other clauses, provisions stating that:

- the number of shareholders may not exceed 75 persons;
- all of the issued stock of all classes must be subject to one or more of the following restrictions regarding the transfer of shares:
 - a right of first refusal;
 - an obligation on the part of the corporation, any shareholder or any third party to purchase the shares subject to a purchase-sale agreement;

¹⁹ General Corporations Act, Act No. 164 of 2009, Chapter XIII.

²⁰ General Corporations Act, Act No. 164 of 2009, Chapter XVIII.

²¹ General Corporations Act, Act. No. 164 of 2009, Chapter XIV.

- the requirement of the consent of the corporation or the shareholder of any kind of restricted security, prior to the transfer of such security; and
- the prohibition, for a reasonable purpose, on transferring the securities to designated persons or classes of persons.
- the corporation may not make any public offering that qualifies as such under the Federal Securities Act of 1933.

It is common to include a clause in the certificate of incorporation of close corporations authorizing the shareholders of the close corporation to manage the corporation's business. If the clause is included, it is not necessary for the shareholders to elect directors; rather, the shareholders may act as the board of directors. However, in such cases, the shareholders will be subject to all legal liabilities of the directors. A close corporation may amend its certificate of incorporation to become a regular corporation by following the amendment procedures established for regular corporations; conversely, a regular corporation can amend its certificate of incorporation to become a close corporation.

(5) Non-Profit Organizations

Puerto Rico's General Corporation Law provides for the organization of non-profit corporations. The certificate of incorporation must clearly state that the corporation is organized for nonprofit purposes and is not authorized to issue stock.

Instead of shareholders, a nonprofit corporation has members who are not personally liable for the debts of the corporation, except by reason of their own acts. However, members have a fiduciary responsibility toward the non-profit corporation similar to that of a director in a regular corporation. Also, the members of a non-profit corporation may elect a governing body (typically called a "Board of Directors") that has the powers and responsibilities of a board of directors of a regular corporation.

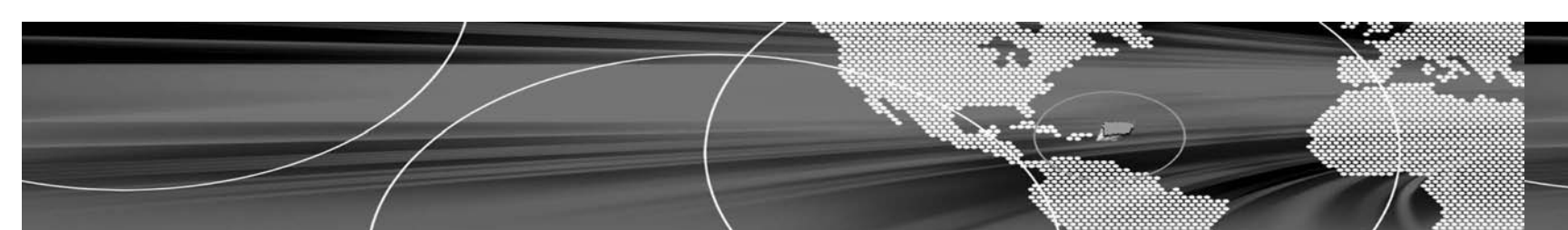
Non-profit corporations are required to file their annual report with the Corporation Division of the Puerto Rico Department of State, but they pay lower fees of only \$10, or, in the case of non-profit religious, fraternal, charitable, or educational corporations, no filing fee is required.

(6) Corporation of Individuals (Corporation Tax Treatment and the Subchapter E of Chapter 11 Election)

Corporations typically face taxation at both the corporate and shareholder levels. However, a corporation that meets certain criteria can elect to be taxed under Subchapter E of Chapter 11 of the Internal Revenue Code for a New Puerto Rico as a corporation of individuals. In general, a corporation of individuals does not pay any income taxes at the corporate level, and the corporation's income and losses are passed through to its shareholders. This pass-through tax treatment is available, however, only if the shareholders consent to the corporation's election and the corporation meets a number of criteria. Specifically, the stock of a corporation of individuals may be owned only by individuals who are citizens or resident aliens of Puerto Rico, estates, and certain trusts. Moreover, the corporation must:

- be an eligible domestic corporation (including a U.S. entity that engages in trade or business only in Puerto Rico), but not an insurance company, a registered investment company, a special corporation owned by employees, a corporation exempt under any tax incentives or similar acts (except under the Puerto Rico Tourism Development Act of 1993), a financial institution, or a corporation licensed as a capital investment fund,
- not have more than 75 eligible shareholders; and
- have only one class of stock outstanding.

All of these requirements must be met when the election is made and at all times thereafter. Failure at any time to qualify as a corporation of individuals terminates the election, and as of the date of termination, the corporation is taxed as a regular corporation.



The election to be considered as a corporation of individuals must be made by filing a Subchapter N Election with the Puerto Rico Treasury Department. Generally the corporation can make the election for any taxable year: (1) at any time during the preceding tax year, or (2) at any time before the 15th day of the fourth month of the tax year, if filed during the tax year the election is to take effect.

D. Limited Liability Company ²²

Limited Liability Companies are more flexible operationally than corporations but can still provide legal protection for their managers and members. To form an LLC, one or more persons must file a LLC Certificate of Formation with the Puerto Rico Department of State, along with a fee of \$100. A foreign LLC may register in Puerto Rico by petition signed by an authorized person following the procedures specified in the General Corporation Act; once registered, it shall have some powers as a domestic LLC, provided that its internal affairs and the liability of its managers and members shall continue to be governed by laws of the jurisdiction where the LLC is organized. LLCs may engage in any lawful activity but must maintain a registered office and resident agent for service of process in Puerto Rico.

The management of an LLC is typically governed by an LLC agreement that sets forth (1) the respective duties of the LLC and its managers and members to each other, (2) the LLC's management structure, (3) the rights of the managers and members and (4) their respective share of interest in the LLC profits and losses. This agreement needs not be registered.

Unless otherwise provided in the LLC Agreement, managers and members of an LLC cannot be held personally liable for the LLC's obligations solely by reason of being a manager or member. They may rely in good faith on the LLC's records and upon information presented by other managers, members, officers, committees, employees, or anyone else with respect to whom such reliance is reasonable.

LLCs are generally taxed as corporations, being subject to tax at both the business entity and shareholder levels.²³ Notwithstanding, LLCs may elect to be treated as partnerships for tax purposes, receiving pass-through tax treatment under the partnership rules contained in Chapter 7 of Subtitle A of the Internal Revenue Code for a New Puerto Rico, not being subject to tax at the partnership level, and being subject to tax instead at the partner level, based in their distributable share of the partnership's income items, at their applicable rate, even though the income was not distributed.

An LLC that is treated as a partnership or which income are attributable to its members for purposes of the United States Internal Revenue Code or a foreign country's law, shall be treated as a partnership and may not be treated as a corporation.

Limited liability companies can be merged, consolidated, dissolved, and/or wound up by the processes set forth for corporations under Puerto Rico's General Corporation Law.

E. Business Trusts

The Puerto Rico Civil Code essentially incorporates the common law of trusts while attempting to harmonize common law and civil law concepts. The Civil Code defines trusts as "an irrevocable mandate whereby certain property is transferred to a person, named the trustee, in order that he may dispose of it as directed by the party who transfers the property, named constituent, for his own benefit or for the benefit of a third party, named the beneficiary." The Civil Code trust provisions do not establish the extent of the liability of a trust, if any, in relation to the debts of its beneficiaries; common law rules would likely be applied to determine such liability.

²² General Corporations Act, Act No. 164 of 2009, Chapter XIX-XX.

²³ Internal Revenue Code, Act No. 1 of 2011, Section 1010.01(a)(3).



F. Joint Ventures ²³

A joint venture is formed between two or more parties who agree to undertake economic activity together and share in the revenues, expenses, and control of the enterprise. The venture can be for one specific project only, or a continuing business relationship. For tax purposes, it is treated as a partnership.

G. Cooperatives ²⁴

A cooperative is a not-for-profit entity be founded by a group of private juridical persons with a common social interest. The cooperative will embody the members' solidarity and efforts to carry out socioeconomic activities to fulfill individual and collective needs. Generally, cooperatives must be formed by a minimum of eight persons (except workers cooperatives which need only five) domiciled in Puerto Rico; they are formed by filing articles of incorporation, bylaws, a feasibility study, and a revenue voucher with the Cooperative Development Administration of Puerto Rico. If the Inspector determines that all requirements for the formation of a cooperative are met, he may then submit the documentation to the Department of State for registration. The cooperative is duly constituted when the Department of State registers the articles of incorporation and issues the corresponding certificate of registration.

A cooperative is managed by a board of directors, composed of no less than three and no more than eleven individuals.

Examples of the many types of cooperatives include: youth cooperatives, labor cooperatives, housing cooperatives, production credit cooperatives, consumer cooperatives, farm machinery cooperatives, and savings and credit cooperative unions. Some types of cooperatives have their own special requirements.

H. International Banking Entities (IBE) ²⁵

The Puerto Rico International Banking Center Regulatory Act provides for the formation of International Banking Entities which are exempt from income, property, and municipal license taxes. Notwithstanding the foregoing, taxable years of an IBE beginning after December 31, 2008 and before January 1, 2012 are subject to a temporary tax of 5% on the net income of the IBE. The formation and operation of an IBE requires a license from the Commissioner of Financial Institutions.

An IBE may be formed by a juridical entity or a unit thereof (but not a natural person) organized under the laws of any country. It must have a minimum capitalization of \$5 million, of which at least \$250,000 must be fully paid at the time its license is issued, and it must maintain at least \$300,000 of unencumbered assets or acceptable financial securities. IBEs must maintain their principal office in Puerto Rico and retain a minimum of 4 full-time employees on the island. The name of an IBE must include the word "International," "Foreign," "Overseas" or another similar word that connotes the international nature of the activities of the IBE.

I. Insurance Companies ²⁶

Insurance Companies include any person engaged in the business of making contracts of insurance as defined in the Insurance Code of Puerto Rico. The insurance code and regulations issued by the Insurance Commissioner establish requirements regarding: (a) funds, (b) deposits, (c) capital or surplus, (d) investment in Puerto Rican securities, among others.

In addition to domestic insurance companies, Puerto Rico's International Insurer and Reinsurer Act (IIRA) provides for the creation of international insurers and reinsurers. To qualify as an international insurer or reinsurer under the IIRA, an insurance company must be approved by the Insurance Commissioner. International Insurers are also granted a Tax Exemption Decrees by the Commissioner and the Secretary of Department of the Economic Development and Commerce, which are considered a contract among the parties, detailing the special tax treatment provided under IIRA. Generally, an "International Insurer" is one that provides direct insurance only for risks outside of Puerto Rico, although it can provide surplus lines coverage and reinsurance for risks located in Puerto Rico.

²⁴ 5 L.P.R.A. §§ 4381-4667

²⁵ 7 L.P.R.A. §§ 232-232x.

²⁶ 26 L.P.R.A. §§ 101-4513.



International Insurers, Branches, and International Insurer Holding Companies are given attractive tax treatment:

Tax	Tax Rate ²⁷
Income Tax	0%
Branch Profit Tax	0%
Dividends / Other Distributions of Profits	0%
Distributions in Liquidation	0%
Municipal License Tax	0%
Property Tax	0%

In addition, they are not required to file tax returns, and the revenues they distribute to non-resident shareholders are also exempt from taxation. Notwithstanding the foregoing, taxable years of International Insurers, Branches, and International Insurer Holding Companies beginning after December 31, 2008 and before January 1, 2012 are subject to a temporary tax of 5% on the net income.

The recently enacted Act No. 98 of 2011 facilitates the establishment of entities that export insurance and reinsurance services, allowing Puerto Rico to compete with jurisdictions such as Bermuda, Cayman Islands or the State of Vermont. This law is further explained in the section on international insurers of Chapter 4.

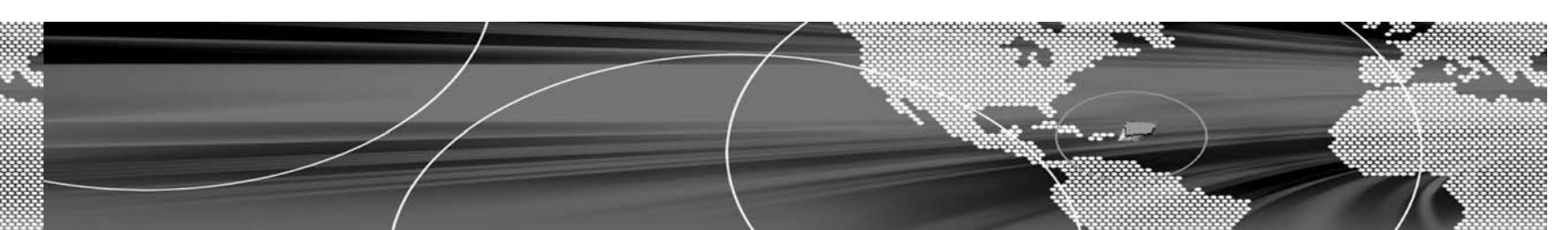
J. Real Estate Investment Trusts ²⁷

A Real Estate Investment Trust (REIT) is a tax designation reserved for corporations investing in real property that reduces or eliminates corporate income taxes. The term “real property” includes, among other things: hospitals and related facilities; schools and/or universities; public and private housing; transportation facilities and private or public roads; office and residential buildings; buildings occupied by government agencies, departments or corporations of the Government of Puerto Rico; manufacturing buildings and related facilities; recreational centers; parking facilities; shopping facilities and centers; buildings purchased from the Government of Puerto Rico, its agencies and instrumentalities; and hotels.

To qualify as a REIT under the Puerto Rico Code, an entity must:

- be organized as a corporation, partnership, trust, or association;
- have 50 or more shareholders or partners during at least 335 days over a 12-month period;
- be managed by one or more trustees or directors;
- evidence capital contributions with shares of transferable certificates;
- be treated for tax purposes as a Puerto Rico corporation (except for the provisions relating to REITs);
- not be qualified as a financial institution or insurance company;
- file an election to be treated as a REIT or have made such an election for a previous taxable year; and
- at the end of the first quarter of its first year as a REIT, have 50% or more of the total value of all the outstanding shares or participation certificates owned by more than five individuals.

²⁷ Act 7 of 2009 instituted a temporary 5% tax on international insurers and international insurers holding companies which will expire on December 31, 2011.



A REIT needs also to comply with the following type-of-income and source-of-income requirements. Specifically, 95% or more of the gross income of the REIT must be derived from:

- dividends;
- interest;
- rents from real property;
- gain from the sale or other disposition of securities or real property (including interests in real property and interests in mortgages on real property) that is not inventory, amounts received or accrued as consideration for entering into agreements either to make loans secured by mortgages on real property or to purchase or lease real property; and
- gains from the sale or disposition of real property.

Moreover, 75% or more of the gross income of the REIT must be derived from:

- rents derived from real property located in Puerto Rico;
- interest on obligations secured by mortgages on real property or rights to real property located in Puerto Rico;
- gains from the sale or other disposition of real property that is not of the type of property that qualifies as inventory;
- dividends or other distributions derived from, and gains derived from, the sale or other disposition of shares of transferable stock, certificates, or participation in another REIT; and
- amounts received or accrued as consideration for entering into agreements to make loans secured by mortgages on real property and/or rights to real property located in Puerto Rico, and/or to buy or lease real property and/or rights to real property located in Puerto Rico.

REITs organized under the laws of the United States or a state of the United States (U.S. REIT) must meet the following requirements to be treated as a REIT under the P.R. Code:

- The U.S. REIT must have qualified as such under the U.S. Internal Revenue Code during the taxable year.
- The U.S. REIT must invest in real property located in Puerto Rico and constructed after June 30, 1995.
- The U.S. REIT must file with the Puerto Rico Treasury Department, not less than 30 days before the first taxable year in which it wishes to be regarded under the P.R. Code as an exempt REIT, a sworn statement with the information required by the Department.

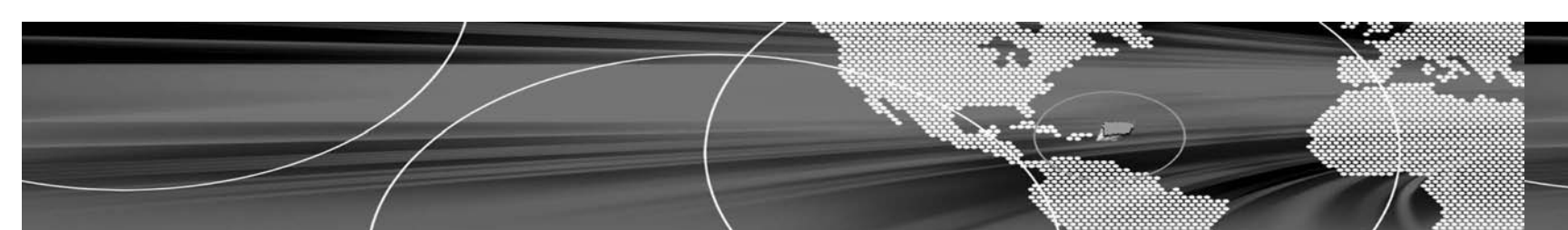
K. Registered Investment Company ²⁸

Investment companies are engaged primarily in the business of investing, reinvesting, or trading in securities. They may be organized as corporations, partnerships, associations, joint stock companies, trusts, funds, or any organized group of persons, whether incorporated or not. It is also possible for a receiver, trustee in bankruptcy, or liquidating agent to qualify as an investment company. If certain requirements are met, an investment company may elect special tax treatment.

An issuer is an investment company if it:

- invests in securities with a value exceeding 90% of the total balance of its assets, excluding securities of the U.S. government, the Government of Puerto Rico, political subdivisions, organizations, agencies, or instrumentalities thereof, and cash items;
- invests not more than 25% of the value of its total assets in securities of another issuer, and owns no more than 75% of the outstanding securities of any other issuer;
- does not have fewer than eleven shareholders entitled to vote;
- does not have more than 50% of its voting securities controlled by less than six of the holders of such securities; and
- offers its securities to the general public if its outstanding securities are owned by more than one hundred persons.

²⁸10 L.P.R.A. §§ 661-683



An investment company must register with the Office of the Commissioner of Financial Institutions before it can: offer for sale, sell, or deliver after sale, in Puerto Rico, any security or any interest in a security it issues; control an investment company that does any of the acts listed above; engage in any business in Puerto Rico; or control any company that is engaged in any business in Puerto Rico. To register, an investment company must:

- maintain its principal office in Puerto Rico;
- hold its annual stockholder meeting in Puerto Rico;
- have at least two directors who are residents of Puerto Rico;
- have a chairman of the board or president, or vice-president and secretary or assistant secretary, who are residents of Puerto Rico;
- invest at least 67% of its total assets, less cash, in Puerto Rico securities (as determined by the Commissioner of Financial Institutions), unless otherwise authorized; and
- have a net worth of at least \$100,000 or insure that after registration it will not issue any of its shares until firm agreements are made by not more than twenty five persons to purchase and pay an aggregate net amount that, added to the net worth of the company, will equal at least \$100,000.

Registration requires the payment of a registration fee equal to 0.1% of the total dollar value of the capital stock issued or proposed to be issued.

L. Special Employee-Owned Corporation ²⁹

The special employee-owned corporation (SEOC) is a hybrid between a regular corporation and a cooperative. SEOCs are owned and controlled by “members” who are similar to shareholders in a corporation. A SEOC may have regular members, special members, and corporate members, but there are stringent limitations on the roles of special and corporate members. Only natural persons who are employed by the SEOC in an indefinite full- or part-time work relationship, and who render their services directly, may be admitted as regular members. A SEOC must have at least three regular members who are not related within the fourth degree of consanguinity and second degree of affinity. In addition, at least 80% of the workers of a SEOC must be regular members. The SEOC has up to four years to meet the 80% requirement. Each regular member is entitled to have one membership certificate and one vote regardless of the amount of capital contributed by such member to the SEOC. In any matter in which the vote of regular members is required, they have the right to cast no less than 55% of the total number of votes.

A SEOC is formed by filing a certificate of incorporation with the Corporation Division of the Puerto Rico Department of State. The initial capital of a SEOC is \$1,000. A SEOC may not issue common stock or any other type of voting stock. All the voting power of an SEOC is in its members. However, an SEOC may issue preferred stock (without voting power) and bonds like a regular corporation.

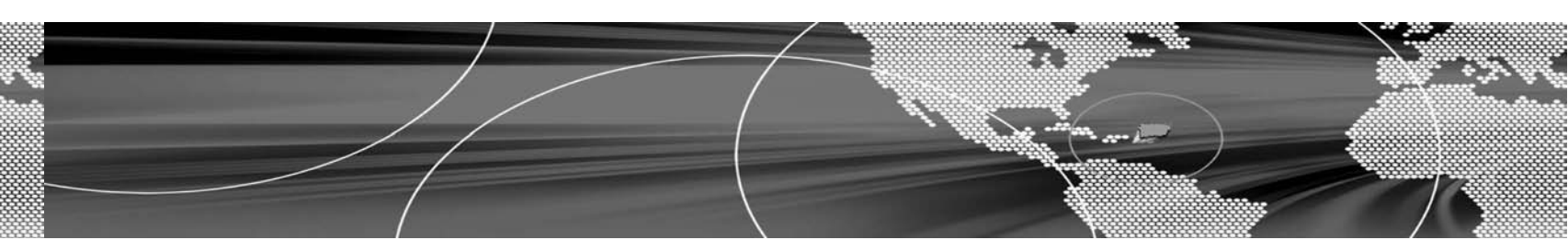
A SEOC is considered a for-profit corporation. The regular members of an SEOC are considered self-employed in relation to labor-protective legislation, except for purposes of workmen’s compensation laws and the Puerto Rico Employment Security Act.

Membership certificates may not be transferred or encumbered in any way. However, if at any time a member ceases to be an employee of the SEOC or is no longer interested in being a member, he or she may request the corporation to repurchase the membership and reimburse him or her for the balance of the corresponding internal account.

Persons that may qualify as special members are:

- consumers that patronize SEOCs engaged in retail sales
- depositors in SEOCs engaged in financial activities;
- students in SEOCs engaged in educational activities; and
- unemployed farmers in SEOCs engaged in agricultural and agro-industrial activities

²⁹ General Corporation Act, Act 164 of 2009, Chapter XVI.



M. Public-Private Partnerships ³⁰

Act No. 29 of June 8, 2009 codified Puerto Rico's policy favoring the use of Public-Private Partnerships (PPPs)—contractual agreements between government agencies and private or non-governmental entity—as a means for achieving greater private sector participation in the development and financing of infrastructure and services, especially for Priority Projects, which include:

- landfills;
- water reservoirs;
- power plants that use alternative sources of energy or renewable sources of energy;
- transportation systems;
- health, security, education, correctional and rehabilitation facilities;
- low-income housing projects;
- facilities for sport, recreation, tourism and cultural activities;
- ground and wireless communication systems;
- high-technology information and mechanical systems; and
- any other kinds of activity, facility or service identified as a Priority Project through legislation.

Act No. 29 creates a Public-Private Partnership Authority as a public corporation of the Government of Puerto Rico, attached to the Government Development Bank for Puerto Rico (GDB). The Authority is designated as the sole government entity authorized and responsible for implementing the public policy on Partnerships and for determining the functions, services or facilities for which such Partnerships are to be established. The Authority shall establish priorities in the development of projects, in order for Partnership Contracts to address infrastructure needs or services that hold priority for the Government of Puerto Rico. The Authority, with the support of GDB, shall conduct analysis on the desirability and convenience of the project as necessary to determine whether it is advisable to carry out the project and establish such Partnership.

Generally, contractors in a Partnership established under the PPP Act receive special tax treatment. For example, such contracts will typically pay only a fixed income tax rate of ten percent (10%) over the net income derived from the operations provided in the Partnership Contract and receive exemptions from paying taxes on personal property. For more detailed rules on the tax treatment afforded to contractors in PPPs see Act No. 29 and the Internal Revenue Code for a New Puerto Rico. ³¹

2. Basic Requirements & Procedures for Starting a Business

A. Requesting and Registering an Employer Identification Number

Except for sole proprietorships that do not employ anyone (other than the sole proprietor), every entity engaged in a trade or business in Puerto Rico must obtain a federal Employer Identification Number (EIN) ³² from the U.S. Internal Revenue Service (IRS) by filing Form SS-4.³³ Upon obtaining an EIN, the entity must file with the P.R. Department of Treasury a Form SC-4809, a copy of the certificate of incorporation, and a copy of Form SS-4.³⁴

³¹ Public-Private Partnership Act, Act 29 of 2009.

³² <http://www.irs.gov/businesses/small/article/0,,id=102767,00.html?portlet=4>.

³³ www.hacienda.gobierno.pr/downloads/pdf/formularios

³⁴ <http://www.irs.gov/pub/irs-pdf/fss4.pdf>.



B. Merchant's Registration Certificate

All merchants seeking to engage in a trade or business in Puerto Rico must register with the Registry of Businesses at the Puerto Rico Treasury Department at least 30 days prior to commencing business operations. The Certificate of Registration issued by the Treasury Department must be placed in a location at the trade or business that is visible to the general public. A merchant may not transfer its Certificate of Registration or Certificate of Exemption unless the transfer is previously approved by the Secretary of Treasury. Any merchant who acquires taxable items for resale or any manufacturing plant may request a certificate of exemption of the sales and use tax. Every certificate of exemption is valid for three (3) years. The exemption certificate is important because every merchant who has been issued this certificate will not have to pay sale tax when he or she purchases the items listed in the certificate.

C. Compulsory Business Registry ³⁵

All businesses operating in Puerto Rico must also register with the Compulsory Business Registry by July 15 of each year. Registration requires certain statistical information and can be done on the internet. Forms and information are available from the Puerto Rico Trade Company.

D. Municipal License Taxes ³⁶

Within 30 days of commencing operations, a business must provide written notice to the Director of Finance of each municipality in which it has commenced operations and request a provisional license for the quarter in which it commences operations.

E. Bidders Registry ³⁷

Any person (natural or juridical) that wants to pursue business with any agency from the executive branch of the Government of Puerto Rico is required to register with the Bidders Registry. This registry is administered by the General Services Administration (GSA), is through them that the application has to be filed. Some of the requirements needed in order to enter the Bidders Registry are an annual fee, which will depend if the application is filed by a corporation, individual, partnership, etc.; copy of the payment of municipal taxes; a certificate that shows the payment of taxes in the Treasury Department of Puerto Rico; and others.

³⁵ 10 L.P.R.A. §§ 2523-2525

³⁶ 21 L.P.R.A. § 6511.

³⁷ 3 L.P.R.A. § 931a.



F. Accounting Books ³⁸

As a general rule, a taxpayer must keep and maintain financial and accounting records sufficient to compute both net income under General Accepted Accounting Principles (GAAP) and taxable income under the Internal Revenue Code for a New Puerto Rico. The General Corporation Act of 2009 provides that every foreign corporation authorized to do business in Puerto Rico shall keep and maintain in Puerto Rico those accounting books, documents and records (including inventory records) which are sufficient to:

- clearly establish gross income and deductions, credits and other details in connection with its operations in Puerto Rico that will be declared in its Puerto Rico tax returns, and
- clear show the amount of its investments in Puerto Rico, the Puerto Rico property owned by the corporation, and the amount of capital spent in conducting business in Puerto Rico.

G. Audited Financial Statements ³⁹

Every person engaged in a trade or business in Puerto Rico whose volume of business exceeds \$3,000,000 must file financial statements, certified by a certified public accountant (CPA) licensed in Puerto Rico, along with their income tax, property tax, and volume of business returns. All foreign corporations must also file a balance sheet of their Puerto Rico operations, certified by a CPA licensed in Puerto Rico, together with the Annual Corporation Report.

H. Internal Revenue Licenses

A license from the Puerto Rico Treasury Department may be required to carry out certain activities, including: selling cigarettes, gasoline, vehicles and parts and accessories of vehicles, jewelry, cement, arms and ammunitions; operating coin-operated machines; operating duty-free port stores; selling firearms and munitions; and operating public carrier businesses. Such licenses may not be transferred without the authorization of the Puerto Rico Secretary of Treasury. A manufacturer of articles whose sale requires a license is not required to have such license, provided the manufacturing operations are completely apart from any location in which an activity subject to such a license is conducted.

I. Municipal Revenue Collection Center (CRIM) ⁴⁰

In Puerto Rico, property is classified for property tax purposes as real property (land, buildings and structures, and machinery permanently attached to the land or building) and personal property (practically all other property, including intangibles, machinery, money, cattle, and shares of stock). The Municipal Revenue Collection Center (CRIM) is responsible for making this classification. The CRIM is also responsible for the valuation and appraisal of all taxable property in Puerto Rico.

In addition, certain documents—including, for example, contracts that create, modify, transfer, or terminate a right or lien in relation to a real property right; any lease of real property for a term of six years or more that is to have effect as to third parties; powers of attorney; and last wills and testaments—are generally required to be executed in deed form in Puerto Rico and recorded in the Property Registry. In order to get a property registered in said Property Registry, the CRIM will certify that the real property is **free of any lien due to taxes**.

³⁸ General Corporations Act, Act No. 164 of 2009, § 15.01(b).

³⁹ General Corporations Act, Act No. 164 of 2009, § 15.01(a)(1).

⁴⁰ 21 L.P.R.A. §§ 5801-5854



J. Construction and Use Permits ⁴¹

A business seeking to construct a new structure or modify an existing structure must obtain a construction permit. These are discussed in more detail in Chapter 6 below, but generally construction permits are obtained by the architect or engineer who has prepared and certified the blueprints for the project. They are acquired from the Permit Management Office (OGPe, by its Spanish acronym) and, in the case of construction in an Autonomous Municipality, from the Municipality's Permit Office.

A "use permit" is the authorization issued by OGPe for the occupation and use of certain lands, buildings, or structures for particular uses. This permit is required when the construction (for which a construction permit was issued) is completed. The "use permit" will be issued only for the use identified in the certificate of construction; in case a special use permit is required, it will be issued separately. Use permits are also acquired from OGPe and, where the operation will be located in an Autonomous Municipality, the Municipality's Permit Office. For the use permit to be issued, the business will need to have the Sanitary License and the Fire Department Inspection (discussed below).

K. Sanitary License

A Sanitary License is required for the operation of certain public establishments, including any type of prepared food vendor (fast-food, cafeteria, restaurants, bars, nightclubs, etc.), public pools, vending machines, and beauty salons. This license is issued by the Department of Health and can be requested from OGPe along with a use permit or directly from the Department of Health.

L. Fire Department Inspection

An inspection by the Fire Department is required for the construction of a new building or to obtain a use permit for the establishing of a public operation. It must be requested annually. The fee for this inspection will vary according to the measurement of the premises to be inspected. A Fire Department inspection is also needed in order to obtain a permit for the operation of a special event.

M. Emergency Generator Operation Permit

If a business owns or operates an emergency power plant, it must have a construction and operation permit from the Environmental Quality Board (EQB). An emergency plan for the prevention of diesel spills may also be required.

⁴¹ Please visit www.sip.pr.gov for everything on construction and use permits. Chapter 6 also describes in detail the procedures and documentation necessary to obtain construction and use permits.



Chapter 3: Tax Systems

1. The U.S. Tax System

A. Individuals Residing in Puerto Rico ⁴²

Residents of Puerto Rico are subject to federal income tax on their worldwide income. However, U.S. Code Section 933 permits a bona fide individual resident of Puerto Rico to exclude Puerto Rico source income from his gross income for U.S. tax purposes. The determination of bona fide residence in Puerto Rico for income tax purposes is established by the application of three tests established in U.S. Code Section 937: the (a) presence test, (b) tax home test, and (c) closer connection test. Of course, even bona fide residents of Puerto Rico will be subject to U.S. income tax on income from sources outside Puerto Rico.

The exclusion of gross income from Puerto Rico sources for U.S. income tax purposes does not apply to the salary received by U.S. government employees working in Puerto Rico, who must include federal income from work done in Puerto Rico as part of their gross income for both U.S. and Puerto Rico income tax purposes. However, income tax paid by U.S. government employees on their salary to the Puerto Rico Treasury Department may be credited against their U.S. income tax liability, subject to limitations.

B. Puerto Rico Corporations ⁴³

Puerto Rico corporations are treated as foreign corporations for U.S. income tax purposes. Thus, Puerto Rico corporations are subject to a 30% U.S. income tax withholding on, among certain other types of income: interest, rents, wages, premiums, annuities, compensation, remuneration, emoluments, and other fixed or determinable annual or periodical gains, profits, and income from sources within the United States. Dividends received by a Puerto Rico corporation from a U.S. corporation, however, and provided certain conditions are met, are subject to only a 10% U.S. income tax withholding instead of the 30% rate applicable to other foreign corporations. The conditions that must be met for the 10% rate to apply are:

- foreign persons must not own (directly or indirectly) 25% or more of the stock of the Puerto Rico corporation at any time during the taxable year in which the dividend is distributed,
- at least 65% of the gross income of the Puerto Rico corporation is effectively connected with the conduct of a trade or business in Puerto Rico or the United States for the three-year period ending with the close of the taxable year of the Puerto Rico corporation or for such part of said period that the corporation has been in existence, and
- no substantial part of the income of the Puerto Rico corporation is used (directly or indirectly) to satisfy obligations to persons who are not bona fide residents of Puerto Rico or the United States.

Notwithstanding the above, Puerto Rico corporations are subject to regular U.S. tax rates on their income effectively connected to a trade or business in the United States. When using a Puerto Rico corporation, care should be exercised as to the possible applicability of U.S. Internal Revenue Code provisions related to controlled foreign corporations, passive foreign investment companies, and foreign personal holding companies.

C. United States Corporations

U.S. corporations are taxable in the United States on their worldwide income. Therefore, U.S. corporations that derive taxable income from Puerto Rico sources must include such income as part of their gross income for determining their U.S. income tax liability.

If a U.S. corporation decides to establish its operations in Puerto Rico through a Puerto Rico subsidiary, the latter will not constitute part of the consolidated group for purposes of the filing of U.S. income tax returns, since a P.R. corporation is considered a foreign corporation for U.S. purposes.

⁴² 26 U.S.C. §933,937.

⁴³ 26 U.S.C. 1442. Specifics also provided in 26 C.F.R. §1.881-5t



2. The Puerto Rico Tax System

The Internal Revenue Code of Puerto Rico is the main body of domestic statutory tax law. It covers income taxes, payroll taxes, gift taxes, estate taxes and more.

A. Individual Income Taxes

(1) In General

For 2011, the ordinary taxable income of individuals residing in Puerto Rico is taxed at progressive rates ranging from 0% to 33%. For 2016, the progressive rates will be reduced to a maximum tax rate of 30%. Other types of income are taxed at the following rates:

- **Long Term Capital Gains.** The applicable tax rate on net long-term capital gains is 10%. Capital gains and losses are long-term if the capital asset was held for more than six months prior to the realization of the gain or loss.
- **Certain Dividends and Partnership's Distributions.** Dividends and partnership profit distributions received by an individual from a Puerto Rico corporation are subject to a 10% special tax.
- **Interest on certain obligations or deposits with banking organizations.** Interest from deposits in interest-bearing accounts or in certificates of deposits of individuals, estates, and trusts in banking institutions may be subject to a special 17% tax, in lieu of regular tax (above), at the option of the taxpayer.

The statutory "source of income rules" discussed below in relation to businesses are generally applicable in determining the source of income of individuals as well. However, certain additional rules only apply in the case of individuals.

Salaried individuals having less than \$20,000 of adjusted gross income are typically exempt from Puerto Rico income tax. This effect is reached by applying the personal exemption, the special deduction and the earned income credit.

If the individual's net taxable income exceeds \$100,000, the benefit of the graduated rates is gradually eliminated (known as "gradual adjustment"). This net taxable income level at which the gradual adjustment applies has been increased by the New Internal Revenue Code for each taxable year until the complete elimination of the gradual adjustment in taxable year 2015.

There is also an alternative minimum tax ("AMT") that may be applicable instead of the income tax determined in the manner described above. The alternative minimum tax rate is: (i) 10% if the net taxable income is \$150,000 or more but not in excess of \$250,000, (ii) 15% if the net taxable income is more than \$250,000 but not in excess of \$500,000, and (iii) 20% if the net taxable income is more than \$500,000.

The AMT on individuals includes most "exempt income" as income for AMT purposes (including income exempted by special statute). Limited exceptions include interest on obligations of the federal government, or Puerto Rico or any instrumentality or political subdivision thereof. Also, the itemized deduction for interest on debt secured by the taxpayer's principal residence or a second home is limited to 30% of the taxpayer's adjusted gross income for purposes of the AMT computation.

The effectiveness of the tax relief provisions for individuals for taxable years 2014 through 2016 brought by the New Internal Revenue Code are subject to the compliance of certain expense control, revenue, gross domestic product milestones.



(2) Non-Resident U.S. Citizens ⁴⁴

A U.S. citizen that is not a resident of Puerto Rico but receives income from sources within Puerto Rico in the amount of \$5,000 or more, is required to file a Puerto Rico income tax return unless the income tax on the income has been paid entirely by way of withholding.

In determining taxable income subject to Puerto Rico income tax, U.S. citizens not residing in Puerto Rico may only take deductions that are properly allocable to such income.

(3) Non-Resident Aliens ⁴⁵

Non-resident aliens are subject to a 29% Puerto Rico income tax rate on gross income from interest, royalties, salaries, wages, annuities, compensation, remuneration, emoluments, and other fixed or determinable, annual or periodic income; on the distributive share of the income of a special partnership; and on net capital gains from sources within Puerto Rico. Dividend income from sources within Puerto Rico is generally subject to a 10% income tax rate. The distributable share of the income from a corporation of individuals is subject to a 33% income tax rate.

A non-resident alien may deduct losses not connected to a trade or business, but incurred in a transaction entered into for profit, but only if the profit from such a transaction would have been taxable.

Non-resident aliens that receive income from sources within Puerto Rico are required to file Puerto Rico income tax returns unless the tax was paid entirely by way of withholding. Non-resident aliens that are engaged in trade or business in Puerto Rico at any time during the taxable year are subject to Puerto Rico income tax at regular rates on their net income that is effectively connected to such trade or business in Puerto Rico. In determining the net income of a nonresident alien, deductions will be allowed to the extent that they are effectively connected with the conduct of a trade or business in Puerto Rico. The due date for the filing of such returns is the fifteenth day of the sixth month following the close of the taxable year.

B. Business Taxes

(1) Sole Proprietorship

A sole proprietorship is taxed on net income from the operation of its trade or business. The net income, generally, is determined using the rules discussed below for corporations. However, the P.R. Code establishes certain exceptions, such as the treatment of the net operating losses. Specifically, the net operating losses suffered by a business operated by an individual as a sole proprietorship may not be used to reduce the net income derived from other business activities conducted by the individual. However, if a husband and wife each own a different principal trade or business, both principal trades and businesses will be treated as one principal trade or business for purposes of the net operating loss deduction.

(2) Corporate Income Tax

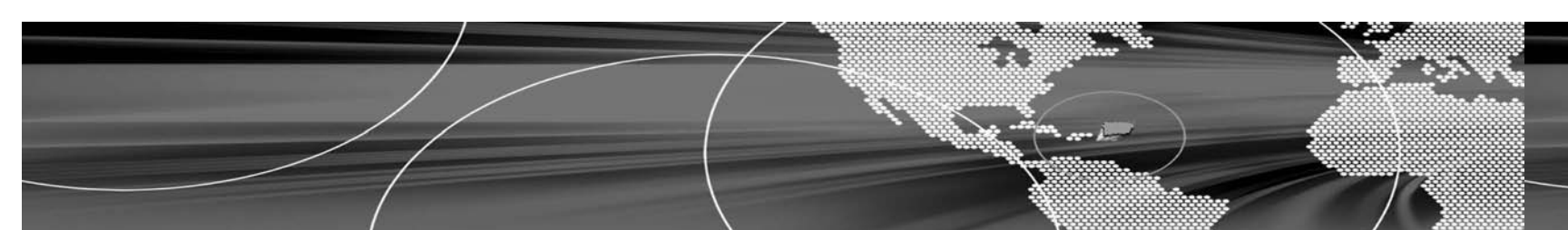
For income tax purposes corporations and business trusts, among others, are treated the same: there is no flow through of income or losses to the owners of such business entities, and instead taxes are levied both at the corporate/partnership level and again at the shareholder/partner level when actual distributions are made.

(3) Partnerships Income Tax

For income tax purposes partnerships and joint ventures, among others, now upon the enactment of the Puerto Rico Internal Revenue Code, provide pass-through tax treatment. The tax treatment of partnerships and their partners is similar, but not identical the treatment under the United States Internal Revenue Code. Partnerships are not subject to tax at the partnership level; instead they are subject to tax at the partner level. Partners are subject to tax based in their distributable share of the partnership's income items, at their applicable rate, even though the income was not distributed.

⁴⁴ Act No. 1 of 2011, Section 1061.01

⁴⁵ Act No. 1 of 2011, Section 1091.0



However, partnerships existing on January 1, 2011 may elect to continue being treated as a corporation. In that case, partnerships and their partners are subject to tax at the partnership level and again at the partner level to the extent the partnership makes any distributions.

LLCs are generally taxed as corporations, being subject to tax at both the business entity and shareholder levels.⁴⁶ Notwithstanding, LLCs may elect to be treated as partnerships for tax purposes, receiving pass-through tax treatment under the partnership rules contained in Chapter 7 of Subtitle A of the Code, not being subject to tax at the partnership level, and being subject to tax instead at the partner level, based in their distributable share of the partnership's income items, at their applicable rate, even though the income was not distributed.

Puerto Rico corporations are taxed on their total net taxable income derived from any source whatsoever. Basically, the tax is determined by excluding certain items from gross income, excluding the items of income that are taxed at a different rate, reducing the remaining amount by the corresponding deductions, applying the corresponding corporate income tax rate to the amount remaining after deductions to determine the partial tax, applying the special tax rates to the special-tax-rate items to determine the tax on special items, adding the partial tax to the tax on special items to determine the total corporate income tax, and reducing the total corporate income tax by estimated taxes paid, withheld amounts, and other credits. The result is the amount of Puerto Rico corporate income tax due.

(4) Source of Income Rules

(a) Personal Services

Compensation paid for personal services performed in Puerto Rico is treated as derived from sources within Puerto Rico.

(b) Rents and Royalties

Income from rents and royalties paid with respect to property located in Puerto Rico, and rents and royalties paid for the use of, or for the privilege of using, within Puerto Rico, intangibles such as patents, copyrights, secret processes, formulae, goodwill, trademarks, trade names, and franchises, are treated as derived from sources within Puerto Rico. Also treated as income derived from sources within Puerto Rico are payments made for the right to transmit, within Puerto Rico, television and radio programs, films, and other similar property.

(c) Sale of Real Property

Gain from the sale of real property is sourced where the real property is located.

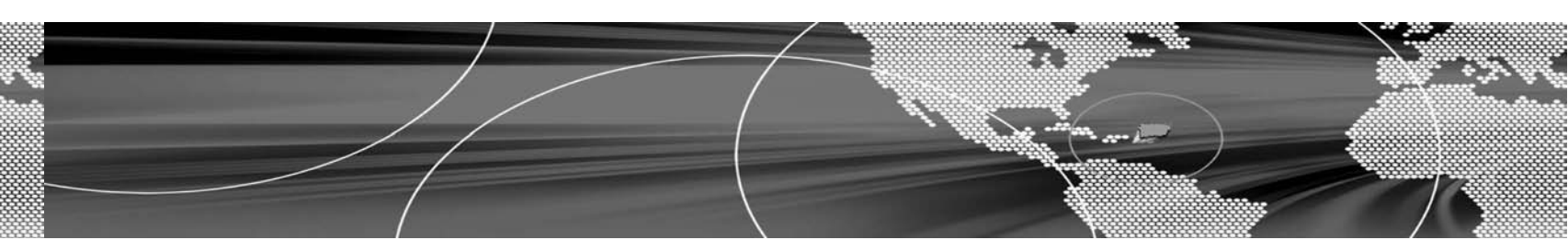
(d) Sale of Personal Property

The source of income from the sale of personal property is determined by the seller's residence.

(e) Sale of Inventory

Gain from the sale of inventory property produced, in whole or part, by the taxpayer within Puerto Rico and sold outside Puerto Rico or produced, in whole or in part, by the taxpayer outside Puerto Rico and sold within Puerto Rico is treated as derived partly from sources within and partly from sources without Puerto Rico. Gain derived from the sale within Puerto Rico of personal property purchased by the taxpayer outside Puerto Rico and from the sale of personal property purchased within Puerto Rico by the taxpayer and sold outside Puerto Rico is treated as derived entirely from sources within the country in which it was sold. If the personal property is produced and sold in Puerto Rico, the income from the sale will be sourced in Puerto Rico.

⁴⁶ Act No. 1 of 2011, Section 1010.01(a)(3)



(f) Distribution from Liquidation of a Puerto Rico Corporation

Income derived from the total or partial liquidation of a Puerto Rico corporation or partnership is treated as derived from sources within Puerto Rico.

(g) Distribution from the Liquidation of a Foreign Corporation

Income derived from the partial or complete liquidation of a foreign corporation or partnership is treated as derived from sources within Puerto Rico if 80% or more of the corporation's or partnership's gross income for the three years preceding the liquidating distribution was effectively connected with the conduct of a trade or business in Puerto Rico. However, the income will be treated as from sources within Puerto Rico only in an amount that bears the same ratio to the total amount of the liquidating distribution as the gross income of the corporation or partnership effectively connected to the trade or business in Puerto Rico (excluding income considered in determining the branch profit tax, if applicable) bears to gross income from all sources.

(h) Insurance Premiums

Premiums paid with respect to a contract insuring risks located in Puerto Rico are treated as income derived from sources within Puerto Rico. However, premiums paid on life insurance contracts to a person not engaged in trade or business in Puerto Rico is not treated as income derived from sources within Puerto Rico.

(5) Tax Accounting Period

A tax year generally consists of a period of 12 months. A corporation may select its tax accounting period on or before the due date for the filing of its first income tax return, without considering extensions of time to file. Once a taxable year is selected, that taxable year must continue until the Puerto Rico Department of Treasury approves a change or the law specifically permits otherwise. The tax accounting periods are: (a) the calendar year; (b) a 12-month fiscal year; and (c) 52 and 53 week taxable year.

(6) Tax Accounting Methods

(a) In General

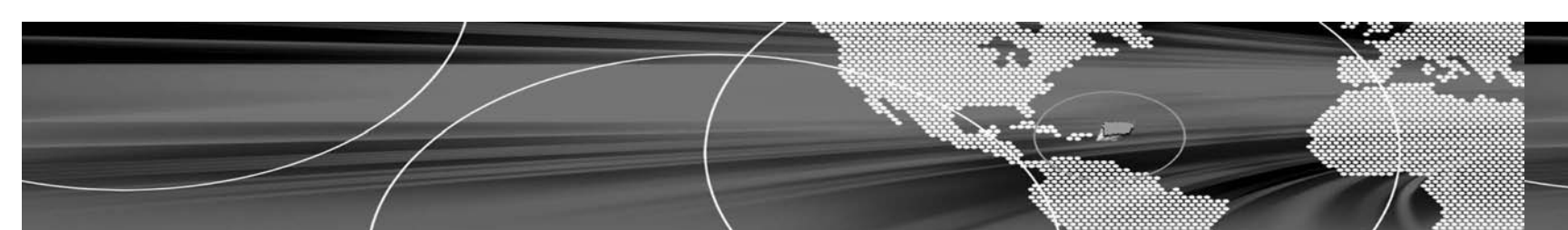
In general, the accounting method used by a corporation to determine its net income for regular business purposes must be used to determine net taxable income for tax purposes. However, the accounting method used by a corporation for tax purposes must be one that clearly reflects income and expenses.

The cash-receipt-and-disbursement method, the accrual method, hybrid methods, the installment method, the percentage-of-completion method, and the completed-contract method are among the accounting methods allowed for Puerto Rico income tax purposes.

(b) Inventories

The method of inventory used for tax purposes must conform to the best accounting practice in the corresponding trade or business. The term "best accounting practice," as used in the P.R. Code, is generally the same as "generally accepted accounting principles." In certain cases, however, generally accepted accounting principles may conflict with the clear reflection of income requirement. If such a conflict does occur, the clear reflection of income should prevail.

The most common methods that may be used to identify inventory are: (a) the specific identification method; (b) the first in first out method (FIFO); (c) the last in first out method (LIFO); and (d) the weighted-average cost method.



Pursuant to the P.R. Code, inventories must be valued at the lower of cost or market value. The regulations offer a number of rules regarding the use of the accounting methods and the valuation of inventories of certain businesses such as securities, farming, livestock breeding, mining and manufacturing, and retailing.

(c) Reserves Methods

The reserve method for deductions of bad debts is not allowed under the P.R. Code.

C. Gross Income

The meaning of gross income is broad and general. The P.R. Code provides that gross income includes gains, profits, and income derived from salaries, wages, or compensation for personal services, interest, rent, dividends, benefits from debt forgiveness, partnership profits, securities, or the transaction of any business carried on for gain or profit, or gains or profit and income derived from any source whatsoever. All income is taxable income unless specifically excluded or exempted.

Some of the more salient statutory gross income exemptions for corporations are:

- interest from obligations issued by the United States and any of its states, territories, Puerto Rico, or political subdivisions thereof and
- dividends from industrial development income that consists of interest derived from obligations of the Government of Puerto Rico or its instrumentalities or political subdivisions.

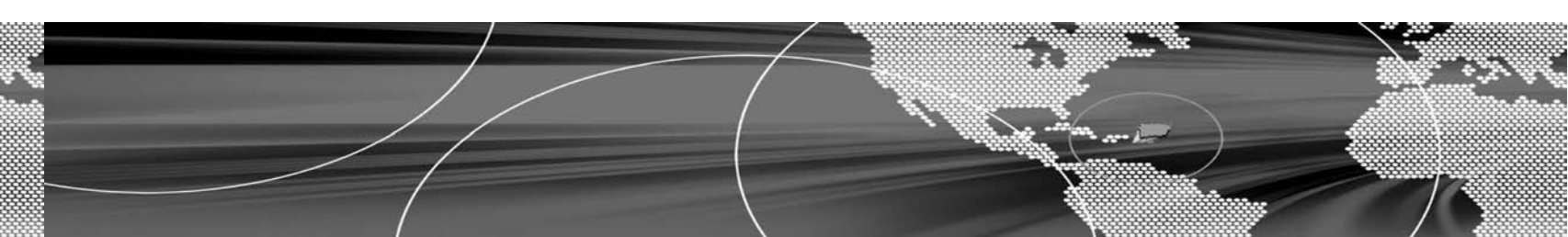
(1) Capital Gains

Under the Puerto Rico Internal Revenue Code, corporations may elect to have gains that are derived from the sale or exchange of a capital asset: (i) taxed at a fixed income tax rate and have their other income taxed in the regular manner, or (ii) included as part of their gross income and taxed at the corresponding ordinary income tax rate.

If the first method of the two described above is chosen, all long-term capital gains and losses are excluded from the gross income that is taxed at the regular Puerto Rico corporate income tax rates. The alternate capital gains tax rate for corporations is 15%. A capital gain or loss is long-term if the capital asset was held by the transferor for more than six months prior to the transfer. The term “capital asset” is described in the P.R. Code by excluding items that are not capital assets. The following do not qualify as a capital asset:

- stock in trade of the taxpayer or other inventory-type property and property held primarily for sale to customers in the ordinary course of a trade or business,
- property used in a trade or business entitled to depreciation and real property used in a trade or business,
- copyrights to literary property, musical, or artistic composition, a letter or memorandum or similar property in the hands of the creator or the transferee that takes the basis of the creator, and
- accounts payable or promissory notes acquired in the ordinary course of business.

There are a number of other situations in which the requirement of a sale or exchange for capital gain treatment is missing, but a capital gain or loss nevertheless will nonetheless result because a statute creates a deemed sale or exchange or a deemed capital gain or loss. Examples of those situations are: securities becoming worthless; retirement of bonds and other securities issued by corporations, partnerships, a government and political subdivisions thereof, with interest coupons or in registered form; gains or losses attributable to the failure to exercise privileges or options to buy or sell property; distributions in excess of earnings and profits and of the basis of the stock; and distributions in liquidations or in partial liquidations.



(2) Non-Recognition Transactions

There are certain transactions in which the gain realized is not recognized for tax purposes and therefore excluded from gross income. In general, the reason for not recognizing such gains is that the underlying transaction is not considered sufficient to break the continuity of the investment. This is the case, for example, with certain exchanges of like-kind property, involuntary conversions, corporate reorganizations, transfers to a corporation controlled by the transferor, property received by a corporation in a complete liquidation of its controlled subsidiary, securities exchanged for securities of the same corporation, and transfers of qualified securities to an employee stock ownership plan. The non-recognition of gain in these cases is, in effect, a deferral of the gain by means of assigning the basis of the transferred property to the property being received in the exchange.

D. Dividend Income

A Puerto Rico corporation's dividends distributions are subject to a 10% withholding tax upon distribution (see sourcing rules above).

An accumulated earnings penalty tax of 50% may be imposed if a corporation is determined to have been formed or used to prevent the imposition of income tax on its shareholders by accumulating corporate earnings instead of distributing such earnings to the shareholders. If the earnings have been accumulated because the reasonable needs of the business so dictate, the accumulated earnings penalty tax may not be imposed. When determining the amount of the accumulated earnings penalty tax, the accumulated earnings covered under a grant of industrial or tourist tax exemption and other similar laws are not taken into consideration.

E. Interest Income

The source of interest income is generally determined by reference to the residence of the debtor. The P.R. Code grants special tax treatment to certain types of interest, such as interest on government bonds and interest on deposits in Puerto Rico financial institutions.

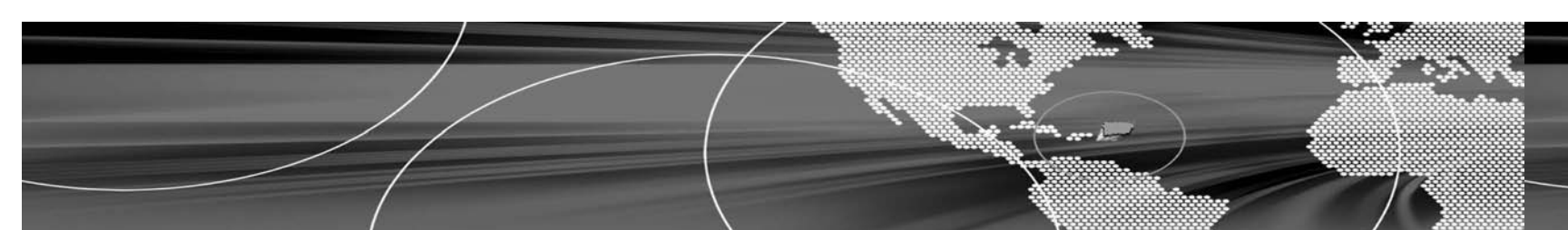
F. Business Expenses

(1) In General

Expenses incurred by a corporation during the taxable year that are directly connected to its business activities are generally deductible provided they are ordinary, necessary, reasonable, and not in violation of public policy. In general, the rules for the deductibility of the business expenses of a corporation closely follow the rules applicable under the U.S. Internal Revenue Code.

However, there are certain items which are statutorily nondeductible even though they would otherwise qualify as a business expense. For example, life insurance premiums paid by a corporation on the life of an officer, employee, or person financially interested in the trade or business of the corporation, when the corporation is directly or indirectly the beneficiary of the policy, are not deductible. Also, payments made in relation to the acquisition, use, or maintenance of boats used in a trade or business are not deductible, unless:

- the boat constitutes a fisherman's working instrument,
- the boat is used exclusively for fishing as part of an industrial unit or as a tourist attraction,
- the boat is used by an entity engaged in fishing and for the exclusive transportation of fish for industrial processing in Puerto Rico,
- the boat is used exclusively for transportation of passengers and cargo by entities duly authorized to conduct such activities in Puerto Rico, or
- the boat is used by an entity engaged in the leasing of boats.



In order to be entitled to the deduction for the use of boats, in the case of businesses from the activities of fishing or transportation of passengers or freight, such business shall derive more than 80% of its total income from such activities.

(2) Organizational Expenses

Organization expenditures, the benefit of which does not have a definite and fixed period of duration, are deductible only when the corporation or partnership is dissolved. When a corporate charter or certificate is issued for a limited time only, the expenses can be amortized over that period.

These nondeductible expenditures are generally incidental to the creation of the corporation or partnership, such as legal fees for drafting the corporate or partnership charter, by-laws, minutes of organizational meetings, and original stock certificates, fees for start-up accounting services, expenses of temporary directors and of organizational meetings of directors or stockholders, and state incorporating fees. The nondeductible expenditures also relate to those incurred for issuing or selling shares of stock or other securities, such as commissions, professional fees, and printing costs. Other nondeductible expenditures relate to the transfer of assets to a corporation or partnership or the reorganization of a corporation.

(3) Travel and Entertainment Expenses

An employer may deduct the paid or reimbursed travel expenses incurred by its employees while working away from home, provided such expenses are ordinary, necessary, and reasonable. These expenses generally include transportation, meals, and lodging expenses for business-related travel.

The payment or reimbursement by an employer of the commuting expenses of an employee is not deductible as traveling expenses, but is deductible as additional compensation. Expenses incurred by an employee for commuting to and from the place of work are not deductible.

Food and entertainment expenses, in addition to being limited by the requirements of being ordinary, necessary, and reasonable, are subject to 50% and 25% limitation rules. The 50% limitation rule provides that only 50% of the total of such expenses are allowed as a deduction. The 25% limitation rule requires that the total of such deductions never exceed 25% of the gross income of the person taking the deduction.

(4) Interest

As a general rule, interest is only deductible if the taxpayer has an obligation to pay the interest and it is ordinary and necessary. The Treasury Department has allowed a deduction of interest that is not paid by the obligor if the party paying the interest is benefited by such payment. However, interest related to an indebtedness incurred to purchase obligations which is exempt from Puerto Rico income tax is not deductible.

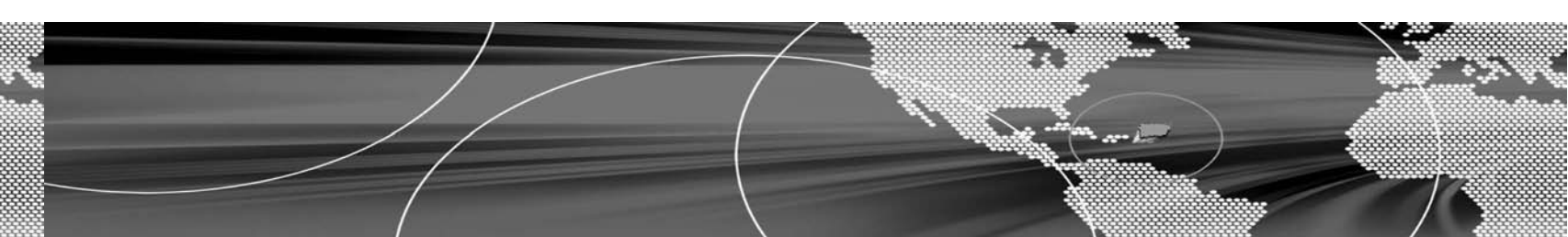
The doctrine of “thin capitalization” has been applied frequently at the administrative level in Puerto Rico. Under this doctrine, debt may be treated as equity and interest payments as dividends if certain factors are present. Interest payments are deductible by the corporation but dividend payments are not.

(5) Royalties

Royalty payments are deductible within the category of ordinary and necessary expenses.

(6) Retirement Plan Contributions

Basically, retirement plans can be divided into two types: (i) qualified plans and (ii) non-qualified plans. Qualified plans are those specifically covered by the P.R. Code. These plans offer a special tax treatment to the: (i) employer, who is allowed to deduct contributions made to the plan; (ii) participants, who can defer the employer’s contributions until they are actually received; and (iii) the trust that controls and administers contributions to the plan and payments of benefits to the participants, which is treated as a tax-exempt entity. Qualified plans are heavily regulated and are subject to strict reporting requirements.



(7) Taxes

Taxes paid or accrued by persons that are not individuals are deductible unless otherwise excepted. Puerto Rico income tax and all inheritance, estate, legacy, succession, and gift taxes are specifically listed as nondeductible. Income taxes, war-profit taxes, and excess-profit taxes not imposed by Puerto Rico (i.e., imposed by the United States or any of its possessions, or by a foreign government) are deductible, but only if they are not otherwise claimed as a credit.

Federal import duties and Puerto Rico excise taxes on manufactured and imported goods are not deductible (these charges are included as part of the costs of the goods). However, such taxes may be deductible if they qualify as necessary and ordinary business expenses. In such case, they would be deductible as a business expense and not as a tax, and would therefore be required to meet the ordinary and necessary test.

Automobile license fees are considered a tax. As such, they do not need to meet the “ordinary and necessary” test.

(8) Depreciation and Depletion

The cost of business assets with a useful life of more than one year may not be deducted in full in the year of acquisition because part of the cost relates to future years. This deduction is generally referred to as depreciation. Inventory and stock in trade are not depreciable property.

The three depreciation systems that may be used under the P.R. Code are:

- straight-line depreciation,
- accelerated cost recovery system (ACRS), and
- flexible depreciation.

In the case of property acquired after December 31, 2009, using the straight-line method, such property is required to use the recovery periods under the ACRS method.

The flexible depreciation deduction method is available to only certain types of businesses in relation to property acquired before the first taxable year commencing after June 30, 1995.

The ACRS method is a mathematical cost recovery concept and does not depend on the actual useful life of the property or on actual wear and tear. The ACRS method may not be applied to the following properties: automobiles not used for public transportation or rental business, property outside Puerto Rico, property used by tax-exempt organizations, intangible property, and property used in activities covered under an industrial or tourism tax exemption grant.

Property covered under the ACRS method is divided into four classes:

- The 3-year class includes electronic equipment such as computers and related equipment, and any other like-kind asset.
- The 5-year class includes automobiles for public transportation, leasing, and other vehicles, qualified high technology equipment, trailers and tow trucks, tools, dairy and breeding cattle, and any other like-kind asset.
- The 10-year class includes assets used in the wholesale and retail sales business and in personal professional services, furniture and fixtures, manufacturing equipment used to make (among other things) fabric, textile products, medical and dental products, chemical products, electric machinery, aerospace products, equipment used in certain agricultural activities, in satellite, telegraphic, and overseas cable communications, waste reduction and recycling plants, assets used in the printing industry, and any other like-kind asset.

- The 15-year class includes assets used in air transportation, thematic and recreational parks, satellite communications, natural gas production plants, structures for use in agricultural and horticultural activities, manufacturing equipment used (among others) to make jewelry, musical instruments, handling of pulp and paper materials, glass products, tobacco products, and any other like-kind asset.
- The 20-year class includes vessels, maritime transportation equipment, electric power generators in satellite communications, land improvements, electric and steam generator systems, manufacturing equipment used (among other things) to manufacture natural gas with methanol, assets used in the production of sugar, vegetable oil, cement, and any other like-kind asset.

The depreciation deduction under the ACRS method is summarized as follows:

Class of property	Recovery Period	Depreciation Method
3-year class	3 years	200% declining balance
5-year class	5 years	200% declining balance
10-year class	10 years	200% declining balance
15-year class	15 years	150% declining balance
20-year class	20 years	150% declining balance
Residential (rental)	30 years	150% declining balance
Nonresidential	35 years	150% declining balance

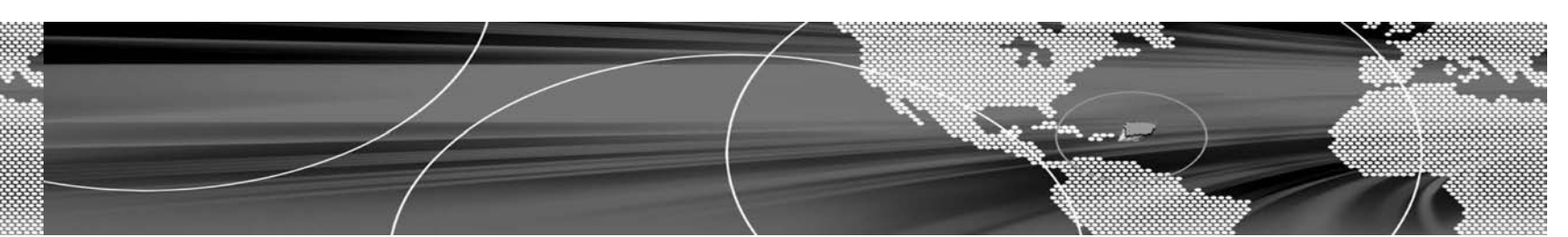
There is no salvage value taken into consideration when using the ACRS method.

Real property placed in service during the taxable year is considered to have been placed in service at mid-year. This rule also applies to the disposition of property within a year. All other depreciable property under the ARCS method placed in service during the taxable year is treated as placed in service at the midpoint of the month it is placed in service.

A recapture of gain is required when property that was depreciated under the ACRS or the flexible depreciation methods is disposed of. The gain is recaptured in an amount equal to the excess of the depreciation deduction that was taken under the accelerated depreciation method over the amount of depreciation computed under the straight-line method up to the date of the qualifying disposition. The recapture is generally not applicable to dispositions in which the gain realized is not recognized for income tax purposes.

There are other special depreciation rules, including:

- Automobiles that are not used for public transportation or in a rental business. As a general rule, such automobile must be depreciated during a five-year period, unless the automobile is used by a salesperson, in which case it may be depreciated during a three-year period. The maximum basis permitted in depreciating automobiles (except those used in public transportation or in the rental business) is \$30,000. Moreover, no expenses incurred in the used and maintenance of automobiles shall be allowed under the Code, instead a deduction based on a standard mileage fee determined by the Secretary is granted for the use and maintenance of automobiles.
- Small and medium sized enterprises. For years starting after December 31, 2008, small and medium size entities (PYMES) may elect to deduct the total cost of equipment of computer systems and its installation in the year of its acquisition and installation. For a business to qualify as a small or medium size entity, its total income may not exceed \$3 million. For years starting after December 31, 2008, PYMES may elect to depreciate land transportation equipment (other than automobiles) and environmental conservation equipment by using the straight-line method with a two-year useful life.

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- Goodwill acquired by purchase may be depreciated during a 15-year period using the straight-line method. Patents and copyrights may be depreciated over the term of their legal life.
 - Intangibles acquired or developed after December 31, 2009, may be depreciated using straight line method with a useful life of the lower of 15 years or the useful life of the intangible.

(9) Obsolescence

Generally, obsolescence is taken into consideration when determining the useful life of property. A special deduction for extraordinary obsolescence may be allowed when the economic life of the property ends prior to the termination of its normal useful life.

(10) Charitable Contributions

Corporations may deduct charitable contributions made within a year to certain organizations, such as religious, charitable, scientific, literary, or educational organizations. The amount of charitable contributions made by a corporation during a year may not exceed 10% of its net income, computed without the benefit of the charitable deduction. Charitable contributions made in excess of 10% of net income may be carried over to the following five years. The 10% limitation is not applicable with respect to contributions made to municipalities for purposes of an historical or cultural value, certified as such by the Institute of Puerto Rican Culture or the Cultural Center of the corresponding municipality, provided the amount of the contribution is in excess of \$50,000 and is for the celebration of the centenarians of the municipality's establishment.

(11) Capital Losses

Corporations and partnerships are only allowed to deduct capital losses to the extent of capital gains, with a five-year carryover of excess capital losses. During the carryover period, the carried-over capital losses are treated as short-term capital losses.

(12) Casualty Losses

Casualty losses sustained by a corporation and not compensated for by insurance or otherwise are deductible. The basis for determining the amount of the loss sustained is the adjusted basis of the lost property.

(13) Bad Debts

Corporations are entitled to an ordinary deduction for business debts that become worthless, or for the part of such debts that become worthless, during the taxable year. To allow the deduction for a bad debt, the taxpayer must have included the amount of such debt as income.

(14) Worthless Bonds and Similar Obligations; Worthless Stock and Right to Acquire Stock

If bonds, debentures, notes, certificates of debt, and other similar evidences of indebtedness become worthless during the year, the loss is considered due to the sale or exchange of a capital asset on the last day of the taxable year. In that instance, the corporation holding the worthless securities will have a long-term or short-term capital loss depending on the length of the period during which the security was held. If the worthless security was held for more than six months, the loss will be treated as a long-term capital loss; otherwise it will be treated as a short-term capital loss. Partial worthlessness and reduction in value due to market fluctuations are not deductible.

(15) Inventory Write-downs

Goods in inventory that are unsalable at normal prices or unusable because of damage, imperfections, shop wear, change of style, odd or broken lots, or other similar causes may be valued at their bona fide selling price less the direct cost of their disposition. The bona fide selling price is the selling price at which the goods are offered at a date not later than 30 days after inventory date.



(16) Rents

Rental payments made by a corporation are generally considered part of the business expenses of the corporation and, thus, deductible. Property taxes on leased property paid by the lessee pursuant to the terms of the lease are considered additional rent paid by the lessee. The amount of the property tax on the leased property paid by lessee is deductible by the lessor.

A person acquiring leasehold for a specified sum may take a deduction for the proportional amount of the sum for each year based on the number of years remaining in the lease term. Likewise, the cost incurred by the lessee to construct buildings and/or make permanent improvements to the leased property must be capitalized by the lessee and deducted throughout the years remaining in the lease term instead of the depreciation deduction. However, if the useful life of the constructed building and/or the permanent improvement made by the lessee is less than the remaining years in the lease term, the lessee must take the deduction for depreciation during the corresponding useful life. As a general rule, if the lease has an option for a renewal period, such renewal period is not taken into consideration when determining the remaining years of the lease term, unless the lease has already been renewed or there is reasonable certainty that it will be renewed.

The economic benefit derived by the lessor at the termination of a lease, represented by the value of the building or the permanent improvements made by the lessee in the leased property, is excluded from the gross income of such lessor.

(17) Salaries and Wages

All reasonable salaries and wages, as well as commissions, bonuses, fees, compensation payments, and other similar payments made for services rendered paid by corporations, are deductible as a business expense.

(18) Capital Expenditures

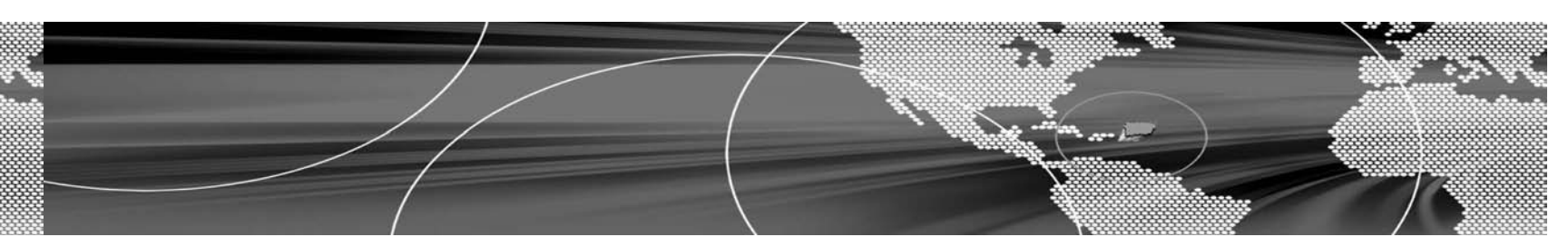
The P.R. Code follows closely the U.S. Internal Revenue Code with respect to capital expenditures. Also, the concept of capital expenditures is also based on the principle that the accounting method used must clearly reflect income.

Capital expenditures, instead of being deducted in the year in which they are paid or accrued, are included as part of the basis of the acquired or improved asset. In addition, depending on the asset and the circumstances involved, such capital expenditures will be depreciated, amortized, or depleted pursuant to the applicable depreciation, amortization, or depletion rules, or included as part of the basis until the asset is sold or disposed of. Amounts paid for securing a copyright, defending or perfecting title to property, architect's services in relation to the construction of a building, and commissions in purchasing securities are capital expenditures.

G. Loss Carryovers

For purposes of determining the amount of the net operating loss carryover, net operating loss equals the excess of deductions over gross income, subject to certain adjustments. In the case of corporations, the adjustments are as follows:

- tax-exempt interest received during the year is added back,
- interest that was not deducted because it was paid or accrued in relation to obligations incurred to acquire or possess obligations that pay tax exempt interests is deducted,
- expenses that were not deducted because they were in relation to the production of exempt income are deducted,
- interest that was not deducted by financial institutions because it was attributed to obligations, acquired by such institutions after December 31, 1987, that paid tax-exempt interest is deducted, and
- the net operating loss deduction carry forward from previous years is not deducted.



The net operating loss may be carried over to the following seven (7) years. However, net operating losses incurred in taxable years 2005 to 2011, may be carried over to the following ten (10) years.

H. Tax Credits

(1) Foreign Tax Credit

To mitigate or eliminate the risk of double taxation of the same income, Puerto Rico corporations have the option of either deducting or crediting the income and excess profit taxes paid or accrued during the taxable year to the United States, any possession of the United States, or any foreign country. However, a Puerto Rico corporation may not, in the same taxable year, take a deduction for some of the non-Puerto Rico income tax paid and take a credit for the other non-Puerto Rico income tax paid.

When non-Puerto Rico income tax is credited, it is treated as a payment of Puerto Rico income tax except that it may not give rise to a refund. No foreign tax credit is allowed to reduce the accumulated earnings penalty tax.

The amount of the foreign tax credit is subject to the per-country limitation and the overall limitation. The formula used to determine the per-country limitation as to the foreign tax paid or accrued is:

$$\text{Puerto Rico income tax} \quad \times \quad \frac{\text{Normal tax net income from sources within a foreign country}}{\text{Total normal tax net income}}$$

The sum of the maximum foreign tax credit resulting from the computations above is subject an overall limitation formula which may be expressed as follows:

$$\text{Puerto Rico income tax} \quad \times \quad \frac{\text{Normal tax net income from sources outside Puerto Rico}}{\text{Total normal tax net income}}$$

The excess U.S., possessions, and foreign taxes paid or accrued by the Puerto Rico corporation over the foreign tax credit actually allowed in a taxable year may not be carried back or forward for use in other taxable years.

In addition to the foreign income and excess profits taxes paid or accrued, a Puerto Rico corporation may be deemed to have paid the foreign income and excess profits tax allocable to the distributed earnings received from its foreign subsidiary.

(2) Other Credits

Amounts withheld may be used as a credit to reduce the recipient’s tax liability. A credit is also available for contributions made to the Educational Foundation for the Free Selection of Schools up to maximum of \$500 per year. Also, there are certain tax credits available in relation to dividends paid by a corporation operating under a grant of tax exemption if investment requirements are met by the distributing corporation.

I. Tax Rates and Calculation of Taxable Income

(1) Corporate Income Tax Rates

Puerto Rico corporations and non-Puerto Rico corporations engaged in trade or business in Puerto Rico face a corporate tax rate composed of two parts: (1) a “normal” tax, which is fixed at 20%, and (2) a “surtax.”

(a) Normal Tax

The first component is calculated by multiplying normal net taxable income times the 20% normal tax rate. The normal taxable net income is regular net taxable income less 85% (or 100%)⁴⁷ of the dividend income received from Puerto Rico corporations.

(b) Surtax

The net income subject to surtax is normal taxable net income minus \$750,000. This amount is multiplied by the applicable surtax rate to determine the surtax owed. The surtax rates are as follows:

Net Income	Surtax
not over \$1,750,000	5%
over \$1,750,000	\$87,500 plus 10% of the excess over \$1,750,000

In order to determine the surtax rate, applicable to corporations within a control group or in the case within a related entities group, the combined net income of all the entities in Puerto Rico will be taken in consideration.

For taxable years beginning after December 31, 2013, subject to the compliance of certain expense control, revenue, gross domestic product government milestones, the 10% surtax rate will be eliminated, being the corporations subject to a 5% surtax rate on ever income subject to the surtax.

If the corporation is a member of a controlled group of corporations, this \$750,000 deduction to the normal taxable net income must be distributed among the members of the controlled group.

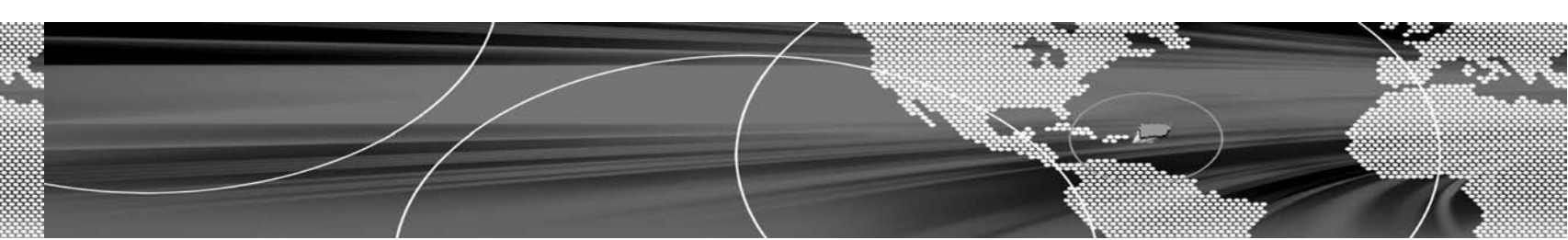
(2) Alternative Minimum Tax

The alternative minimum tax (AMT) is designed to ensure that corporations with substantial economic income may not avoid paying a reasonable amount of income tax by using exclusions, deductions, and credits available to them. The Puerto Rico AMT equals the excess of the amount of the tentative minimum tax over the amount of the normal corporate tax plus surtax.

The tentative minimum tax is equal to the greater of:

- 20% of the excess of net alternative minimum income over the exempt amount; or
- 1% of the value of the purchases of personal property from a related person.
- For purposes of this 1% tentative minimum tax, personal property does not include raw materials, partially completed products, or alcoholic beverages.
- In order for the 1%s minimum tax to apply, the purchaser must have had gross income from industry or business in Puerto Rico in excess of \$ 50,000,000 during any of the preceding three taxable years.
- The 1% minimum tax does not apply to personal property acquired by the exempt operations under an industrial tax exemption grant under Act No. 73 of 2008, or any analogous act.
- The 1% minimum tax will not apply when the purchaser of a member of the controlled group of the purchaser is subject to excise tax in lieu of income taxation of the income of a nonresident alien individual or nonresident foreign entity meeting the 10% source of income tests discussed below.

⁴⁷ A 100% deduction is allowed to small business investment companies operating in Puerto Rico under the federal Small Business Investment Act of 1958 for those dividends or partnerships profits received. Also, business can deduct from their net income 100% of dividends or partnership distributions from taxable controlled domestic corporations or partnerships (generally, control entails ownership of at least 80% of the combined total voting power of all voting stock and 80% of the total value of all kinds of stock).



- The 1% minimum tax will not apply when the Secretary determines that the value of the purchased property from a related person is similar or substantially similar to the value for which such related person sells such property to a nonrelated person in Puerto Rico.
- The 1% minimum tax will not apply to purchases of all or substantially all of the assets of a business, out of the ordinary course of business.

The exempt amount equals \$50,000 reduced (but not below zero) by 25% of the alternative minimum net income over \$500,000.

The alternative minimum net income equals the net taxable income subject to certain adjustments. The following adjustments are made to net taxable income to determine the alternative minimum net income:

- the straight-line method is applied,
- the retail sales method is changed to the accrual method,
- the method of percentage of completion of construction is used for construction contracts in excess of one year,
- financial institutions may deduct interest expenses related to tax-exempt interest,
- the net operating loss is subject to additional limitations, and
- exempt interest is added back.

The AMT does not apply to:

- foreign corporations and partnerships that are not engaged in trade or business in Puerto Rico,
- special partnerships,
- corporations of individuals,
- registered investment companies,
- real estate investment trusts,
- special corporations owned by employees,
- corporations and partnerships operating under a grant of industrial or tourism tax exemption, but only in relation to the income covered by the grant, or
- corporations or partnerships operating bona fide agricultural businesses, but only to the extent that the income derived from the activity is allowed as a deduction.

However, it is important to mention that payments made to related persons for services not rendered in Puerto Rico and not subject to taxation in Puerto Rico will not be allowed as a deduction for purposes of computing the Alternative Minimum Tax Income. For these purposes, the term “related persons” refers to non-resident aliens or foreign corporations or partnerships not engaged in trade or business in Puerto Rico if there is 50% or more of overlapping ownership.



J. Assessment and Filing

(1) Corporate Income Tax Return

All Puerto Rico corporations and all non-Puerto Rico corporations that are engaged in trade or business in Puerto Rico are required to file an income tax return and pay the corresponding Puerto Rico corporate income tax on or before the fifteenth day of the fourth month following the close of its taxable year.

An automatic 3-month extension of time will be granted to corporations for the filing of income tax returns if the extension request is filed on or before the due date of the filing of the income tax return. The extension must be filed accompanied by the full balance of the income tax due.

(2) Estimated Tax

In addition to the corporate income tax return, every corporation engaged in trade or business in Puerto Rico is required to estimate its tax liability for the current taxable year. The estimated tax may be paid in four installments by the 15th day of the fourth, sixth, ninth, and twelfth month.

(3) Consolidated Returns

The P.R. Code does not provide for the filing of corporate returns on a consolidated basis.

K. Funding the Corporation

As a general rule, no income is recognized by a Puerto Rico corporation on the original issuance of its stock. However, the P.R. Code requires that if the transferor consists of more than one person, the amount of shares and securities received by each person must be proportional to his interest in the transferred property prior to the transfer.

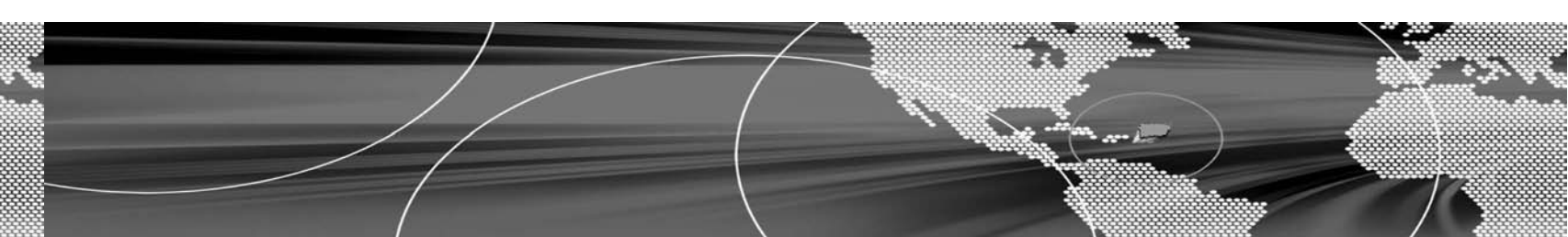
When a corporation assumes the liabilities of the transferor or receives property from the transferor subject to liabilities, such assumed liability is not treated as a receipt of money or other property by the transferor in determining whether the transfer is “solely in exchange of stock or securities.” However, for the purpose of determining whether the stock or securities received by the transferors are substantially proportionate to their interest in the transferred property, the assumed liabilities are treated as stock or securities received by transferors.

The basis of the stock or securities received by a transferor in a non-recognition exchange with a Puerto Rico corporation is equal to the basis of the property transferred in exchange for the stock or securities, decreased by the amount of money received, increased by the amount of gain recognized, and decreased by the amount of loss recognized by the transferor. The liability assumed by the corporation is treated as money received by the transferor for the purpose of determining the basis of the stock or securities received by the transferor.

L. Reorganizations in General

In general, the reorganization rules under the P.R. Code follow a pattern similar to that of the reorganization rules of the U.S. Internal Revenue Code, with the principle underlying both codes being that no gain or loss should be recognized because the new corporate structure is merely a continuation of the previous corporate structure. The recognition of gain or loss is postponed by means of a carryover of the basis.

The P.R. Code lists the same types of reorganizations as the U.S. Internal Revenue Code, except the P.R. Code does not list the transfer by a corporation of all or part of its assets to another corporation in a Title 11 bankruptcy filing or a receivership, foreclosure, or similar proceeding in a federal or state court. However, the P.R. Code specifically provides that no gain or loss is recognized in certain exchanges made in connection with the reorganization of an insolvent corporation affected in a receivership, foreclosure, or other similar court proceeding, or in a court reorganization proceeding under Section 77B or Chapter X of the federal Bankruptcy Code.



(1) Liquidations

Generally, a gain or loss may be recognized upon the liquidation of a Puerto Rico corporation at both the corporate and shareholder levels. At the corporate level, liquidation will be treated as if the corporate assets are being sold to the shareholder at fair market value. At the shareholder level, the liquidation is treated as an exchange by the shareholder of its shares of stock for the assets received from the corporation. Thus, a gain or loss will be recognized based on the difference between the fair market value of the assets received and the adjusted basis of the shares of stock being surrendered.

No gain or loss is recognized upon the complete liquidation of a controlled subsidiary into its parent corporation. In this case, control is the ownership of at least 80% of the total combined voting power and at least 80% of the total number of shares of all other classes of stock. This ownership requirement must exist on the day that the liquidating plan is adopted and must continue to exist until the liquidating distribution is made. If there is only one liquidating distribution, all the property must be transferred to the parent in the same tax year. If there are a series of distributions, all the properties must be transferred to the parent within three years from the close of the taxable year during which the first distribution was made.

(2) Acquisition of Stock with Step-up in Basis of Assets of Acquired Corporation

A corporate tax election is available to an acquiring corporation to step up the basis of the assets in a target corporation the stock of which it purchased.

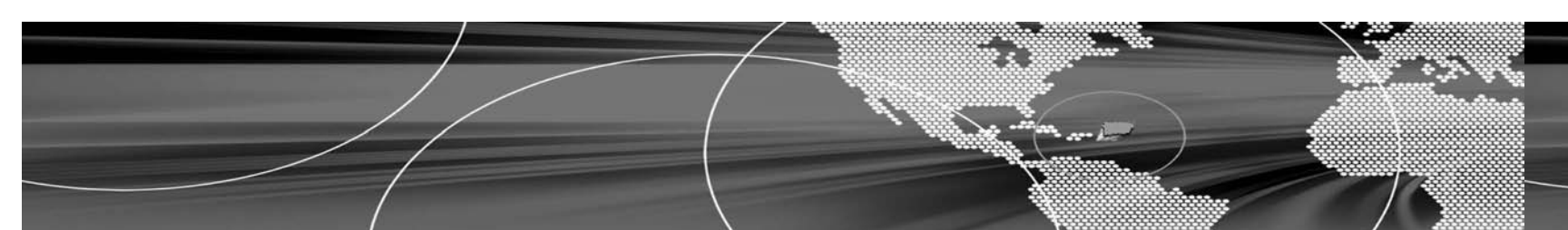
M. Foreign Entities Doing Business in Puerto Rico

A foreign corporation (one that is organized under the laws of a country other than Puerto Rico) may engage in trade or business in Puerto Rico as a division or branch of that foreign corporation or as a separate corporation or subsidiary. Resident foreign corporations are taxed in Puerto Rico on their Puerto Rico source income and on any effectively connected income at the same graduated tax rates as any domestic corporation.

(1) Subsidiary

A foreign corporation that is engaged in a trade or business in Puerto Rico must treat the following as income effectively connected to its trade or business in Puerto Rico:

- all income from sources within Puerto Rico,
- income attributable to an office or other fixed place of business in Puerto Rico that consists of:
 - rents or royalties derived from the use outside Puerto Rico of intangibles such as secret processes, formulae, patents, trademarks, franchises, and copyrights,
 - dividends or interest, or gain or loss from the sale or exchange of stocks or bonds or other evidences of indebtedness that is either derived from a banking or financing business or from a corporation trading in stocks or securities for its own account, and
 - gains or losses derived from the sale or exchange of personal property outside Puerto Rico through the corporation's office or fixed place of business in Puerto Rico (except gains or losses from the sale of personal property that is manufactured outside Puerto Rico and is to be used, consumed, or disposed of outside Puerto Rico);
- income or gain attributable to the rendering of services or the sale of property in another year if in such other year it would have been treated as effectively connected income, and
- gain or loss from the sale or disposition of property that is used in connection with a trade or business in Puerto Rico or that ceased to be used in connection with a trade or business in Puerto Rico within the previous 10 years.



The foreign subsidiary will be allowed to deduct the expenses directly allocable to the Puerto Rico business. In addition, a reasonable apportionment of expenses not directly related to any item of income shall be allowed as a deduction.

Any actual repatriation of dividends will be subject to a 10% income tax withholding at source.

Foreign corporations not having any office or place of business in Puerto Rico must file their Puerto Rico income tax returns on or before the fifteenth day of the sixth month following the close of their taxable year. However, if the Puerto Rico income tax liability of a foreign corporation was paid in full under the withholding provisions, the foreign corporation will be exempt from the filing requirement.

A foreign corporation that is not engaged in trade or business in Puerto Rico, but derives income from real property located in Puerto Rico owned for the production of income, may elect to treat such income as connected to the conduct of a trade or business in Puerto Rico, whether the income is rent or gain from the sale or exchange of the property. If it exercises the election, the foreign corporation not engaged in trade or business in Puerto Rico will be taxed on the real property net taxable income at regular Puerto Rico income tax rates instead of a 29% tax rate on the gross income from the real property. However, the election does not by itself cause any other income received by the foreign corporation not engaged in trade or business in Puerto Rico to be treated as income effectively connected to a trade or business in Puerto Rico.

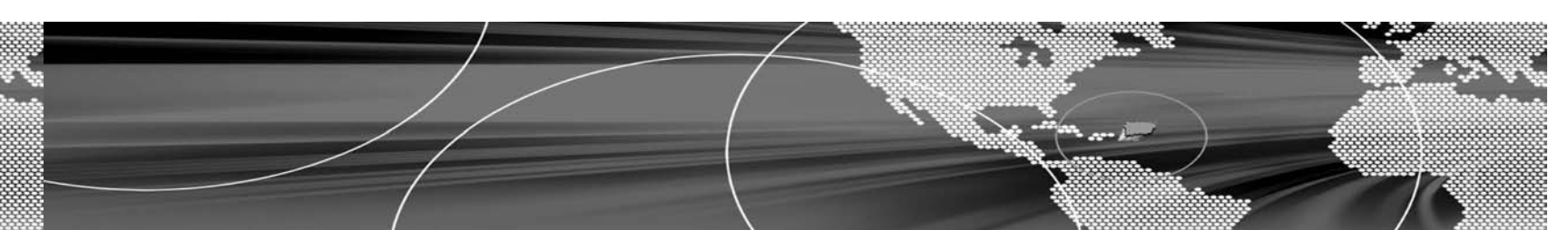
(2) Nonresident alien individuals or nonresident foreign entities no having an office or place of business in Puerto Rico, which are Part of a Controlled Group Engaged in Manufacturing or Service Activities in Puerto Rico.

Source of income rule

Certain nonresident alien individuals or nonresident foreign entities may be treated as engaged in trade or business in Puerto Rico, and deriving income from Puerto Rico sources for income tax purposes. An office or a fixed place of business of a person related to the nonresident alien or nonresident foreign corporation or partnership may be treated as the office or fixed place of business of the nonresident person, being treated thereby as engaged in trade business in Puerto Rico.

A Puerto Rico office of a related person is treated as an office or fixed place of business of the nonresident alien individual or nonresident foreign entity in Puerto Rico when:

- such related person had the authority to negotiate and contract in the name of the foreign taxpayer and regularly exercised that authority or maintained an inventory of merchandise from which orders in the name of the foreign taxpayer were regularly filled; and
- such nonresident alien individual or nonresident foreign entity purchases goods from a related company (more than 50% ownership) that manufactures, in whole or in part, personal property or performs services for or on behalf of, such nonresident alien individual or nonresident foreign entity in Puerto Rico, which for the taxable year or for any of the three preceding taxable years meet one of the following tests:
 - 10% Puerto Rico gross receipt test, or
 - 10% cost test, or
 - 10% commissions and fees test, or
 - facilitation services test.



The portion of the gains, profits, and income of the nonresident alien individual or nonresident foreign entity purchaser that is treated as Puerto Rico source income, when the above requirements are satisfied, is determined by multiplying the total income of the Purchaser by a fraction, the numerator of which is the sum of four equal factors: property, payroll, sales and purchases, and the denominator of which is four.

Excise Tax

Notwithstanding the foregoing, in lieu of income taxation of the income of a nonresident alien individual or nonresident foreign entity meeting the above 10% source of income tests, an excise tax will be imposed on such nonresident alien individual or nonresident foreign entities that acquire personal property and services from related sellers whose gross receipts exceed \$75,000,000 for any of the three preceding taxable years. The excise tax rate will be 4% for purchases during calendar year 2011, being reduced in subsequent calendar years to 3.75%, 2.75%, 2.5%, 2.25% and 1%, and for calendar year 2017 the excise tax will no longer be in effect, being subject to the source of income rule thereafter.

Certain credits are available for the controlled group to reduce the excise tax. Moreover, the excise tax paid may be claimed as a foreign tax credit for federal income tax purposes.

The tax is imposed on the person acquiring such personal property and services, but collected by the seller of the property or services and deposited with the Secretary of the Treasury by electronic means on or before the 15th day of the month following the month in which the purchase occurs with the corresponding payment voucher.

Each collector of the excise tax is required to file for each quarter of a calendar year a quarterly tax return on April 30, July 31, October 31, and January 31 and pay with the return that part of the tax that has not been paid or deposited with the monthly payment voucher.

(3) Branch Profit Tax

Income taxation of a U.S. branch is the same as for a U.S. subsidiary. The only difference will be that a deemed dividend distribution tax (branch profit tax or BPT) will be assessed on the branch upon any advances made to its home office. The BPT rate is 10% of the "dividend equivalent amount." Broadly speaking, the BPT would be imposed if the earnings and profits derived by the Branch were not reinvested in Puerto Rico as of the end of the taxable year. Comparing the net equity at the end of the taxable year and the net equity at the beginning of the taxable year makes the determination whether the amount was invested or reinvested.

A foreign corporation is not subject to the branch profit tax in a taxable year if for the current and two preceding taxable years at least 80% of its gross income was effectively connected with a Puerto Rico trade or business.

In determining taxable income, the branch will take into consideration items of income effectively connected with the conduct of a trade or business in Puerto Rico. The branch will be allowed to deduct the expenses directly allocable to the Puerto Rico business. In addition, a reasonable apportionment of expenses not directly related to any item of income shall be allowed as a deduction.

N. Other Reporting Requirements

Informative returns are to be filed for any payment of dividends or any payment in excess of \$500 to individuals for interest, rents, salaries, or wages not otherwise reported premiums, annuities, compensations, remuneration, or other fixed or determinable gains, profits, and income. Any person who credits or makes payments to an individual of \$500 or more and who becomes obligated to withhold the tax on such payments shall file a return specifying the total amount of interest paid or credited, the tax deducted and withheld, the name, address and the account number of the person to whom the payment or withholding was made. Such return shall be filed on or before February 28 of the year following the calendar year in which the interest was paid.



O. Tax Withholding

(1) Wages

Withholding is generally applicable to all of an employee's wages for services performed for his employer. Non-cash wages are measured by their fair market value at the time of transfer.

(2) Services

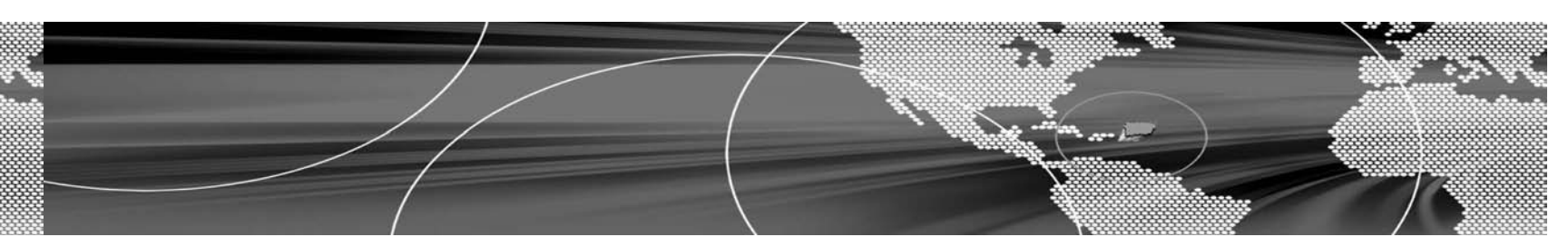
In general, payments made in the conduct of a trade or business or for the production of income in excess of \$1,500 to another person (natural or juridical) for services performed within Puerto Rico are subject to a seven percent (7%) withholding. The amount withheld should be deposited with the Secretary of the Treasury on or before the fifteenth (15) day of the month following the close of the month in which the tax was deducted.

The following payments are exempted from this requirement:

- payments made to hospitals, clinics, terminal patient homes, homes for elderly and institutions for the disabled,
- payments made to organizations that are exempt pursuant to the provisions of the Code,
- commission payments made to direct salespersons for the sale of consumer products,
- payments made to contractors or subcontractors for construction work,
- payments for services rendered by nonresident individuals or foreign corporations or partnerships that are not involved in an industry or business in Puerto Rico that is subject to withholding requirements under a different set of rules established in the P.R. Code,
- payments of salaries subject to withholding under a different set of rules established in the P.R. Code,
- payments for services to corporations that are current in their tax responsibilities,
- payments made to the Government of Puerto Rico, including its agencies, instrumentalities, public corporations and political subdivisions,
- payments for services to individuals during the first three years of their commencement of rendering the service activities,
- payments made to bona fide farmers that qualify for a special deduction established in the Code,
- payments made directly, or through an agent or representative, to an air or maritime carrier (eligible carrier),
- payments made by an eligible carrier to a nonprofit entity engaged in the business of bookkeeping, registering, reporting and collecting sales for air or maritime transportation tickets and other related services, on behalf of or for the benefit of such eligible carrier, and
- payments for ecclesiastic services rendered by priests or other ministers of the gospel duly authorized or ordained, including Hebrew rabbis.

Corporations may get a reduced withholding tax of 3% if they are in good standing with the P.R. Treasury Department. A "Partial Relief of Withholding Certificate" must be obtained and remitted to each customer.

Corporations with a volume of business of \$1,000,000 or more that are in good standing with the P.R. Treasury Department may obtain a "Total Waiver of Withholding Certificate" which provides a total exemption from the 7% income tax withholding to corporations.



Entities with a volume of business of \$1,000,000 to \$3,000,000 that are in good standing with the P.R. Treasury Department may obtain a “Total Waiver of Withholding Certificate” which provides a total exemption from the 7% income tax withholding to corporations.

Moreover, a “Total Waiver of Withholding Certificate” may be granted by the Secretary when the Secretary determines that the waiver will not serve any practical purpose.

Individuals are no longer eligible for the partial relief withholding certificate. Therefore, all payments for services made to individuals are subject to a full 7% withholding.

The tax must be deposited on or before the 10th day of the month following the month in which the tax was deducted and withheld. In addition, an informative return must be filed by February 28th of the following year covering such payments and withholdings during the calendar year. Also, a form should be filed summarizing the number of informative returns filed.

An Annual Reconciliation Statement of Withholding at Source on Payments for Services Rendered must be filed by the same date. The Puerto Rico Department of Treasury requires that every person that is obliged to file 5 or more informative returns must do so electronically.

(3) Fixed or Determinable Annual or Periodic Income

A withholding of income tax at source is required to be made on payments of interest, rent, salaries, wages, participation in partnership profits, commissions, premiums, annuities, remuneration, compensation, dividends, or other fixed or determinable, annual or periodical gains, profits and income (but only to the extent that any of the items constitute gross income from sources within Puerto Rico) to nonresident individuals, or nonresidents fiduciaries, or foreign corporations and foreign partnerships, not engaged in trade or business within Puerto Rico. The Company would be required to withhold and deduct a tax at the following rates:

Nonresident individuals citizen of the United States (Except on dividends)	20%
Nonresident alien individuals (Non US citizen) (Except on dividends and interest paid to a related person)	29%
Nonresident fiduciaries	29%
General rule, foreign corporations and partnerships not engaged in trade or business within Puerto Rico (Except on dividends and interest paid to a related person)	29%
Estimated tax payment of the income attributable to a partner of partnership	33%
Estimated tax payment of the income attributable to a limited liability company	30%
Dividend payments to foreign corporations not in trade or business within Puerto Rico	10%
Sales of property by nonresident aliens	25%
Dividend payments from corporations and partnership engaged in the operations of hotel manufacturing or shipping businesses, or industrial development income	10%



P. Municipal License Tax ⁴⁸

The municipal license tax is imposed on gross income. The tax rate varies depending on the municipality but ranges from 0.2% to 0.5% in the case of non-financial businesses. For financial business the tax rate ranges from 1% to 1.50%. This tax is payable directly to the municipality.

A number of business activities and types of income are exempt from municipal license taxes. For example, businesses operated by or for the government, businesses with a volume of business of less than \$5,000, income from the sale of agricultural products to farmers, tax-exempt nonprofit organizations, international banking entities and insurance companies, the exporting activities of businesses operating in a tax free zone, income from services performed as an employee, income from the sale of oil and its derivatives to the Puerto Rico Electric Power Authority, and plants engaged in the processing of tuna (provided they employ 300 or more individuals in the same physical facility) are 100% exempt from municipal license taxes.

The municipal license tax annual return must be filed every year on or before April 15, or within five working days after April 15. The municipal license tax may be paid in two equal installments. The first installment is paid from July 1 to July 15 after the due date for the filing of the return corresponding to that tax. The second installment is paid from January 1 to January 15 of the year following the year of the due date for the filing of the return. If the total municipal license tax is paid at that time, a 5% discount is applied.

Financial statements certified by a CPA licensed in Puerto Rico must be attached to the declarations if the total volume of business is or exceeds \$3,000,000. Otherwise a copy of the income tax return, stamped on all its pages as received by the Department of the Treasury, should accompany the declaration.

After the payment of the first installment, the municipality will issue a municipal license that must be posted in a clearly visible place in the business or service establishment.

Q. Property Taxes ⁴⁹

Municipalities may impose, by means of municipal ordinances, a property tax of up to 4% per annum on the appraised value of all taxable personal property in the municipality and up to 6% per annum on the appraised value of all taxable real property in the municipality.

Real property taxes and personal property taxes are imposed as of January 1 of each year. Therefore, persons that did not own the property as of that date are not subject to the property tax. Likewise, if the property was owned as of January 1 but was sold during the course of that year, the owner of the property as of January 1 is liable for the payment of the corresponding property tax for that year.

Municipalities do not have jurisdiction to impose property taxes on property located outside Puerto Rico. Likewise, property in interstate or foreign commerce is not subject to the Puerto Rico property tax. On the other hand, a property tax may be imposed on property located in Puerto Rico prior to being transported in interstate commerce or after the property finally comes to rest in Puerto Rico. If, on the assessment date, the property is under the control of the carrier and is to be shipped outside Puerto Rico, it is in interstate commerce and thus exempt from property tax. However, if the property had been sold to a buyer outside Puerto Rico but was still in the hands of the seller on the assessment date, the property tax liability for the property remains the responsibility of the seller, even if on the next day it is delivered to the carrier for shipment outside Puerto Rico.

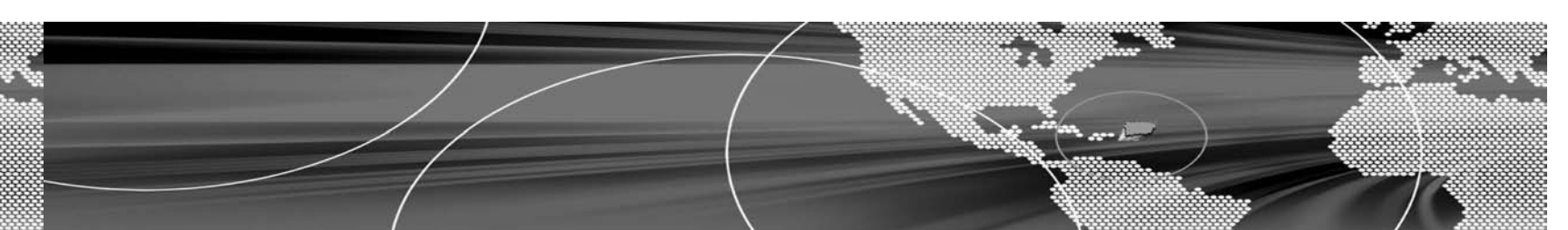
(1) Personal Property Tax ⁵⁰

Any natural or juridical person engaged in a Puerto Rico trade or business and that as of January 1 owns personal property used in the trade or business must pay personal property tax to the municipality in which the property is located. The rates depend on the municipality and are imposed on the market value of the property. The market value is initially determined by the taxpayer. Generally, book value is accepted as equivalent to fair market value, but if book value does not reflect fair market value, the municipality may revalue the personal property.

⁴⁸ 21 L.P.R.A. §§ 651-652y

⁴⁹ 21 L.P.R.A. §§ 5001-5010

⁵⁰ 21 L.P.R.A. §§ 5201-5240



Taxable property normally includes cash on hand, inventories, materials and supplies, furniture and fixtures, and machinery and equipment used in the trade or business. A minimum residual value is assigned to items which are substantially depreciated. There are certain exemptions established in the P.R. Code.

A personal property tax return must be filed on or before May 15 of each year in the corresponding regional office of the Municipal Revenue Collection Center, together with the full payment of such tax. If full payment of the personal property tax is received on or before May 15, a 5% discount is allowed.

If the volume of business (defined as gross receipts) of the corporation exceeds \$3,000,000, the property tax return must be reviewed by, and accompanied by financial statements certified by, a Puerto Rico licensed CPA. The financial statements of foreign corporations engaged in business in Puerto Rico should reflect solely their operations in Puerto Rico.

A trial balance of the corporation's business activities in Puerto Rico as of the preceding January 1 is required when the corporation does not have a calendar-year closing. The trial balance must be traced to the corporation's accounting records and accompanied by a report from an accountant affirming that the trial balance is in agreement with the books of account of the business.

(2) Real Property Tax ⁵¹

The real property tax is imposed on the value of the property as assessed by the Municipal Revenue Collection Center. The tax is payable semiannually on July 1 and January 1 of each year.

The assessed value is the valuation of property for property tax purposes, which is equal to the fair market value of the corresponding real property in the year 1958.

A recent amendment imposes a special temporary tax on residential and commercial real property. This special tax is .0591% of the assessed value of the real property and will be applicable for the government fiscal years commencing on July 1, 2009 and ending on June 30, 2012.

R. Excise Tax

The Puerto Rico Code imposes an excise tax on certain articles imported into and manufactured in Puerto Rico. The P.R. Code has three types of excise taxes.

First, there is an excise tax on imports and products manufactured in Puerto Rico. This excise tax is imposed only once on articles imported, sold, consumed, used or transferred in Puerto Rico. This tax is imposed on cement manufactured in or introduced into Puerto Rico, sugar, plastic products, cigarettes, fuels, products derived from oil and hydrocarbon mixture, and vehicles; the tax rates are different for the different products.

Second, there is an excise tax on certain transactions, including sales of jewelry, occupancy or rooms in hotels, public shows, and horse racing winnings; the tax rate varies depending on the transaction.

Third, there is an excise tax in the form of licenses for the sale of certain articles or the conduct of certain activities. In addition, there are several exceptions to this general rule and some exemptions to the imposition of the tax.

(1) Manufacturers

In the case of Puerto Rico manufacturers selling their manufactured products in Puerto Rico subject to excise tax, the "taxable price in Puerto Rico" is equal to 72% of the selling price. The corresponding excise tax rate is then applied to that amount.

⁵¹ 21 L.P.R.A. §§ 5001-5010



(2) Importers

An importer's cost in Puerto Rico shall be the sum of all the costs, excluding those for freight and insurance, that make possible the arrival of an article to a Puerto Rico port of entry, regardless of its name or its origin. The cost also includes certain royalties or commissions, plus 10% of the sum of the related costs by reason of freight and insurance. The cost in Puerto Rico shall not be reduced for discounts for prompt payment, or for discounts granted by reason of volume of purchase, by reason of sales volume or considerations of a speculative nature, but it may be reduced for commercial discounts that are granted to reduce the prices stipulated in lists, catalogs, advertisements, or other publications to the prevailing market prices or for converting the consumer price into a wholesale or retail price, as long as the Secretary of the Treasury of Puerto Rico determines that such reduction is properly warranted. For these importers the effective tax rate is 6.6% of the cost.

Importers of merchandise are required to declare and pay the excise tax at the time of introduction. Additionally, they must file monthly declarations and pay the applicable Excise Tax for imports of goods via the U.S. Postal Service.

Importers who satisfy certain requirements and elect to participate in the bonded program will be assigned an excise tax identification number. The identification number is renewable every year. If it is not renewed, the number will be inactivated and the privilege of getting an automatic release of the merchandise in the port will be suspended.

(3) Exemptions

Raw material to be used in Puerto Rico for the manufacture of finished products, excluding hydraulic cement, is exempt from the excise tax.

Also considered as exempted articles in transit and for export are those consigned to the dealer/importer with the intent of having them exported. These articles are exempt from the excise tax during the period they are in the custody of the custom authorities or deposited in a bonded warehouse or in a Foreign Trade Zone.

Additionally, articles introduced into Puerto Rico or originally acquired in Puerto Rico from a local manufacturer are exempt from the excise tax if they (i) have not been sold, used, or transferred in Puerto Rico or (ii) are in possession of dealers-importers or dealers who have acquired them from manufacturers in Puerto Rico and sold for use and consumption abroad.

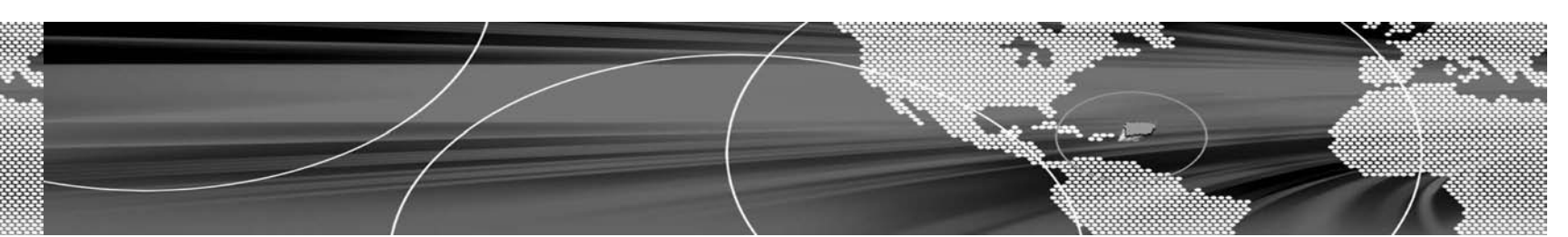
S. Sales and Use Tax

Every merchant engaged in any business that sells taxable items is responsible to collect the Sales and Use Tax ("SUT") as a withholding agent. The SUT rate is 7% (5.5% for the Commonwealth of Puerto Rico and 1.5% for municipalities; however 6% is always collected by Hacienda) and in general will apply to the following items:

- taxable personal property ⁵²;
- taxable services ⁵³;
- admission rights ⁵⁴;

In general, the person that buys, consumes, uses, or warehouses for use or consumption a taxable item is the one responsible for the payment of the sales and use tax. However, if the transaction is subject to the sales and use tax and the merchant is required to collect said tax from the buyer as a withholding agent, the merchant is to be responsible for the payment of the sales and use tax. If the merchant does not meet the obligation of collecting the sales and use tax from the buyer, the Treasury Department may collect the sales and use tax from either the merchant or the buyer.

Every merchant must file a Monthly Sales and Use Tax Return on or before the 10th day of the following month in which the tax is collected.



The law provides an exemption from the SUT to the resellers on every taxable item acquired for resale and to manufacturing plants on raw material and machinery and equipment for use in the manufacturing process. In order to claim this exemption, the merchant has to request the Certificate of Exemption to the Secretary of the Treasury.

Merchants subject to the Act must keep the following for a period of no less than six years: (i) accounting records; (ii) papers; (iii) documents; (iv) invoices; (v) commercial receipts; (vi) canceled checks; (v) payment receipts; (vi) certificates of exemptions; (vii) shipping documents; (viii) evidence of the taxable items received, used, and sold; (viii) collection records; and (ix) any other evidence related to the sales and the amount of the sales tax withheld and paid to the Secretary of Treasury.

Merchants that use the accrual method of accounting may claim a sales tax credit for the sales tax paid on sales that resulted in bad debts. Said credit may be taken in the monthly return after the month in which the account became a bad debt.

T. Gift Tax

The Puerto Rico gift tax will be imposed based on the fair market value of the property donated less any obligation assumed by the donee as a result of accepting the gift. There are five allowable deductions that are based on the property donated and/or on the identity of the donee and/or the donor:

- the value of gifts made by a resident of Puerto Rico of property located in Puerto Rico,
- up to a \$5,000 value of gifts made to a disabled child,
- the value of gifts for the education or training of an individual,
- the value of gifts to provide medical care to an individual, and
- the value of certain qualified charitable gifts.

The donor is the person primarily liable for the payment of the Puerto Rico gift tax. However, the recipient may also be held personally liable up to the value of the property received as a result of such gift.

For donors residing in Puerto Rico, the Puerto Rico gift tax is applicable to gifts of property located anywhere in the world. For donors not residing in Puerto Rico, the Puerto Rico gift tax is only applicable with respect to gifts of property located in Puerto Rico.

An exclusion from the total amount of gifts made during a year is available to a donor with respect to the first \$10,000 donated to each donee. If the property being donated is community property, each owner, separately, may use the \$10,000 exclusion. The rates of the gift tax and the estate tax are the same, 10% of the taxable amount.

The gift tax return is due on or before January 31 of the year following the year of the gift. If the donor does not file the return, the donee must file the return on or before February 28 of the year following the year of the gift.

⁵² Excluded from the term "taxable personal property" and thus excluded from the sales and use tax are those items that are subject to the excise tax. Some other articles or transactions are exempt of the sale or use tax as well, including: (a) certain types of foods and medicines, (b) articles sold for use and consumption outside of Puerto Rico, (c) articles in transit, (d) raw materials, machinery and equipment used in the manufacturing process by a manufacturing plant, (e) taxable items sold in specially licensed stores located at air and maritime terminals to persons leaving Puerto Rico, (f) personal possessions moved to Puerto Rico as a result of a change of residence by a nonresident of Puerto Rico or by a member of the armed services of the United States or the Commonwealth of Puerto Rico who has been officially transferred to render services in Puerto Rico, (g) purchases of items to be resold by a merchant reseller, (h) the admissions rights to athletic events sponsored by public or private schools, colleges, and universities, (i) funeral services up to \$4,000, (j) promotional material delivered free of charge by an exhibitor, promoter, meeting or congress planner to a participant in a convention, trade show, forum, meeting, incentives trip, or congress, (k) items and equipment specifically designed to compensate for physical or physiological deficiencies of disabled persons, and (l) money, cash equivalents, stocks, bonds, notes, notes payable, mortgages, insurance, securities, and other obligations, among others.

⁵³ The following services are not included in the definition of "taxable services" and are thus excluded from the scope of the sales and use tax: (a) services that are rendered to a person that is engaged in an industrial or commercial activity, business activity, or any other activity for production of income; (b) services of agronomists, architects, attorneys at law, certified public accountants, real estate brokers, sellers of real estate and real estate businesses, professional draft persons, professional appraisers of real estate, geologists, engineers, and surveyors; (c) services rendered by the Commonwealth of Puerto Rico, its instrumentalities and its municipalities; (d) educational services, provided that such services consist of courses and classes rendered by entities regulated by the Council of General Education or the Council of Advanced Education, courses and tutorial classes rendered by teachers certified by the Department of Education of Puerto Rico, and courses of continued education offered by colleges and professional associations; (e) interest and other charges for the use of money and the services offered by financial institutions; (f) insurance services and commissions; (g) health and hospital services; and (h) services rendered by persons with a volume of business of \$50,000 or less.

⁵⁴ Excluded from the term "admission rights" is the right to use collective transportation services such as the systems offered by the Metropolitan Bus Authority, the Ports Authority, the Transportation and Public Works Department or by an operator or subcontractor thereof, and persons certified by the Commonwealth of Puerto Rico, its agencies or instrumentalities to provide those services. Also excluded from "admission rights" are the ticketing and box office services.



U. Estate Tax

A different formula is used for determining the gift and estate tax of: (1) U.S. citizens who did not acquire their U.S. citizenship by being born or naturalized in Puerto Rico and were residents of Puerto Rico at the time of death, and (2) those individuals who were nonresidents of Puerto Rico at the time of death but had certain property located in Puerto Rico.

Under the Puerto Rico Civil Code, the gross estate includes all the property, rights, and obligations of the decedent that are not extinguished by death.

As a general rule, the estate of a decedent that was a resident of Puerto Rico at the time of death includes all the property of such decedent, wherever located. However, the estate of a nonresident alien or person who was a resident of Puerto Rico at the time of death but did not acquire U.S. citizenship solely by reason of being a citizen of Puerto Rico or being born or residing in Puerto Rico, will be taxed only on the part of the estate located in Puerto Rico. In such cases, the estate tax will equal the maximum foreign estate tax credit granted under the U.S. Internal Revenue Code (or foreign jurisdiction law) for the portion of the gross estate located in Puerto Rico.

Upon the death of a decedent, an estate tax lien is automatically imposed on all the assets of the decedent. A Release of Estate Tax Lien will not be issued until the estate tax return is filed and all taxes owed by the decedent to the Government of Puerto Rico (including income taxes) or to its municipalities, have been fully paid. If the outstanding taxes are prescribed, a certificate to that effect must be obtained.

The executor of an estate is the person primarily liable for the payment of the Puerto Rico estate tax. After filing the estate tax return and paying the corresponding estate tax, the executor may ask the Secretary of Treasury that he or she be released from personal liability with respect to the payment of deficiencies. If the Secretary of Treasury does not reply to the request, the executor is released from that liability one year after the date of the filing of the request.

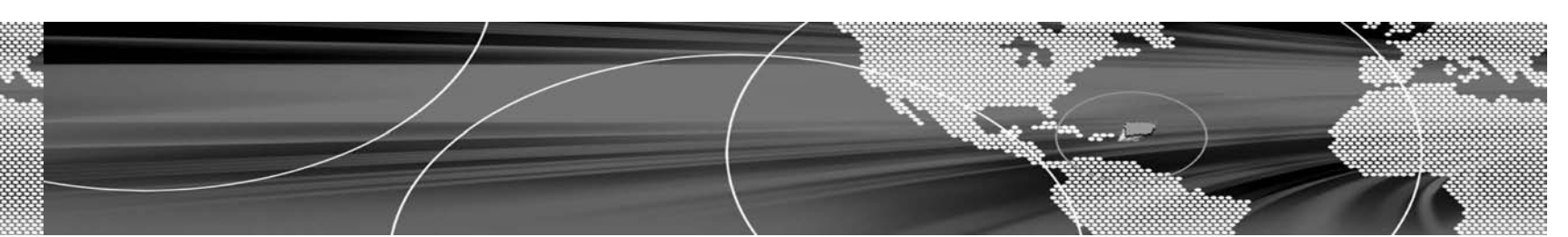
The P.R. Code establishes a limited number of deductions to reduce the gross estate, which depends on the property transferred or the recipient. For example, it is granted a deduction from the gross estate equal to the fair market value of property located in Puerto Rico. As a result of this deduction, most estates in Puerto Rico are exempt from Puerto Rico estate tax.

Also deductible from the gross estate are:

- the fair market value of property that passes from the testator to the surviving spouse by bequest, devise, or inheritance,
- bequests or legacies made to non for profit organizations, and
- if the decedent derived over 50% of his or her net income from agricultural, poultry, and animal husbandry enterprises for three years prior to his or her death, the value of all the property used in such businesses can be deducted from the gross estate.

A number of deductions are allowed based on the liabilities of the decedent or expenses of the estate. Such deductions are summarized as follows:

- outstanding debts of the decedent at the time of death;
- taxes owed by the decedent to the Commonwealth of Puerto Rico at the time of death;
- the amount of the mortgage if the mortgaged property was included in the gross estate;
- funeral expenses up to a maximum of \$6,000;
- accidental losses caused by fires, earthquakes, or hurricanes taking place within nine months following the decedent's death and not compensated by insurance or otherwise; and
- total fees paid to lawyers, accountants, appraisers, surveyors, partitioners, and executors actually incurred until the day of the filing of the estate tax return up to a maximum of 5% of the gross estate.



Residents of Puerto Rico are permitted a \$1,000,000 deduction. Such deduction shall be claimed before the deduction for property located in Puerto Rico, and allocated among all the assets included in the gross estate using as basis the fair market value thereof.

A credit responsible taxpayers is allowed for total amount of the tax reduced by other credits, if at the time of death, the decedent does not have debts pending payment for tax obligations and the executor complies with the payments within the terms established by law, of the tax obligations due after the decedent's death.

The rate applicable to the estate tax is 10% of the taxable amount.

The estate tax return is due on or before 9 months after the decedent's death.

V. Payroll Taxes

(1) Puerto Rico Income Tax Withholding

Under the P.R. Code, the employer is required to withhold income tax at source upon the salaries and wages paid to its employees performing services in Puerto Rico.

The withholding rates depend upon the personal exemption and credits for dependents claimed in the withholding exemption certificate to be completed by every employee. The Secretary of the Treasury has issued tables for the determination of the tax to be withheld included in an instruction manual.

There is no wage limitation for the withholding. Every employer having one or more employees should withhold the tax.

The date for depositing the amount withheld will depend on the classification of the employer as: (i) a monthly depositor; (ii) a biweekly depositor; or (iii) a next-day depositor. A monthly depositor is an employer that, during the base period, withheld Puerto Rico income tax of \$50,000 or less on the wages of its employees. Such an employer must deposit the amount withheld on or before the fifteenth day of the month following the withholding.

A biweekly depositor is an employer that, during the base period, withheld Puerto Rico income tax of more than \$50,000 on the wages of its employees. Such an employer must deposit the amount withheld as follows: (i) if the payment of the salary or wage was made on a Wednesday, Thursday or Friday, the deposit must be made not later than the following Wednesday; and (ii) if the payment of the salary or wage was made on a Saturday, Sunday, Monday, or Tuesday, the deposit must be made no later than the following Friday.

A next-day depositor is an employer that on any day within a deposit period accumulates \$100,000 or more of Puerto Rico income tax withheld on the salaries and wages of its employees. Such an employer must deposit the amount withheld on the next banking day. From that day onwards such an employer will be considered to be a biweekly depositor.

(2) FICA Tax ⁵⁵

The provisions of the United States Federal Insurance Contributions Act of 1935 (FICA) apply in Puerto Rico. Under this act, both employers and employees are required to contribute to the Social Security Fund that was established to provide retirement benefits for all workers. For the year 2009, the tax rate is 7.65% for employer and 7.65% for employee. Each percentage is comprised of 6.2% for social security and 1.45% for hospital insurance. Self-employed individuals are subject to the total 15.3% tax rate on net earnings from carrying on a trade or business. The Social Security Tax is computed on the first \$106,800 of wages received and the Medicare tax is computed on the total wages, without ceiling.

The quarterly return of combined employer's and employee's social security taxes is due on April 30, July 31, October 31 and January 31. The return along with the payment should be filed with the Internal Revenue Service.



The employer must give the employee two copies of Form W-2PR on or before January 31, following the end of the calendar year in which the tax was withheld.

Employers must determine how frequently they should deposit the social security taxes every year. Which category an employer is in for a calendar year will be dictated by the amount of employment taxes reported for a one year look back period ending the preceding June 30th. The different categories for deposit are the following:

- monthly depositors: \$50,000 or less,
- semi-weekly: more than \$50,000,
- one-day depositor: taxes of \$100,000 or more during a deposit period, and
- quarterly deposit: \$2,500 or less on any quarter.

(3) Puerto Rico Unemployment Tax ⁵⁶

Each employer pays this tax on the first \$7,000 of annual wages paid, based on an experience rating system. In addition, every employer must pay a special tax of 1% of all taxable wages. However, the special tax together with the experience based tax would not exceed 5.4% and may be credited against the Federal Unemployment tax mentioned above.

The tax must be paid on or before the last day of the month following each calendar quarter along with the quarterly return. The Puerto Rico Department of Labor requires every employer hiring 25 employees or more to file the quarterly payroll tax forms electronically.

(4) Federal Unemployment Tax ⁵⁷

The Federal Unemployment Tax Act (FUTA) provisions apply in Puerto Rico as well as in the United States. The tax is imposed on persons who employ one or more individuals for a portion of a day in each of 20 weeks in the current or preceding calendar year, or who pay in the aggregate \$1,500 or more of wages in a calendar quarter of the current or preceding calendar year.

The tax must be deposited on or before the last day of the month following each calendar quarter if the tax exceeds \$500. An annual return must be filed on or before January 31.

The FUTA tax rate for 2008 is 6.2% (0.8% after a credit of 5.4% for the Puerto Rico unemployment tax) on the first \$7,000 of wages paid to an employee each calendar year. The tax is deposited quarterly. Any excess is deposited with the last quarterly installment along with the annual return Form 940 PR due on January 31.

No deposit is required if the tax is \$500 or less. The amount must be added to the tax for the next quarter. Then, in the next quarter, if the total non-deposited tax is more than \$500, it must be deposited. If the liability for the fourth quarter (plus any non-deposited amount from any earlier quarter) is over \$500, the entire amount must be deposited by the due date of the annual return (January 31).

⁵⁵ 26 U.S.C. §§ 31010-3128.

⁵⁶ 29 L.P.R.A. § 708.

⁵⁷ 26 U.S.C. §§ 3301-3311.



(5) Disability Benefits Tax ⁵⁸

The Disability Benefit Act provides benefit payments to employed workers who suffer the loss of wages as a result of disability due to illness or accident not connected with employment. This Act provides a tax of 0.60% on the first \$9,000 of wages paid during the calendar year by an employer to an employee. Both the employer and employee share the tax imposed evenly (the employer is liable for 0.3% and the employee for the other 0.3%).

Employers must pay the full amount of the disability benefits tax on or before the last day of the month following each calendar quarter. Payment must be accompanied with the quarterly return. Thus, the filing of the quarterly return and the corresponding payment are due on April 30, July 31, October 31, and January 31.

(6) State Insurance Fund Corporation (FSE) ⁵⁹

The Workmen's Accident Compensation Act establishes a compulsory insurance program covering employees who suffer injury, become disabled or lose their lives due to a job related accident or function. The rate varies according to the type of labor performed by the employee. Rates are revised every year and the tax is entirely borne by the employer.

Every employer must file by July 20 of each year a payroll statement showing the number of employees, occupation or industry classification and the respective total amount of wages paid during the immediately preceding fiscal year ended June 30. At the end of each fiscal year, the Manager of the Fund compares the payroll reported with that of the preceding fiscal year, upon which the current year's premium is based. He then adjusts the premium accordingly.

All employees are legally required to be covered under the workmen's compensation insurance. If an employer fails to pay the workmen's compensation premium, that employer will not be covered by the workmen's compensation insurance for the corresponding period and, in addition, will continue to be liable for such premiums and for the corresponding penalties for late payment. In such cases, the employees suffering an accident may still benefit from the services offered by the State Insurance Fund as if the employer had been up to date in its payments of workmen compensation insurance. However, in those cases, the State Insurance Fund will collect from the uninsured employer all the costs and expenses incurred in relation to the injured employee.

(7) Chauffeur's Insurance ⁶⁰

The purpose of the chauffeur's tax is to raise funds and to provide workers insured with sickness and disability pensions with a bonus after reaching the age of 65. Also, to provide compensation to surviving spouses and children under 15 years of age in the event of the death of the insured. The sickness disability and/or death need not be work-related. No sickness pension will be paid if the case may be compensated under the State Insurance Fund. However, if the compensation from the State Insurance Fund is less than that under the Chauffeurs' and Other Employees' Social Security Act, the difference will be paid by the Chauffeurs' Insurance Fund.

If the employer hires employees (outside the executive level) who are required or permitted to operate motor vehicles as an integral and regular part of their jobs, chauffeur's social security must be paid instead of Puerto Rico disability insurance. Every employer must pay a tax of 30 cents weekly for each covered employee. Every covered employee must pay 50 cents weekly, which is withheld by the employer from the compensation paid to the covered employees, and remitted together with the employer's share.

The tax withheld together with the employer's share should be paid not later than fifteen days after the last day of each calendar quarter with the quarterly return.

The Puerto Rico Department of Labor requires every employer hiring 25 employees or more to file the quarterly payroll tax forms electronically.

⁵⁸ 1 L.P.R.A. §§ 201-212

⁵⁹ 11 L.P.R.A. §§ 1-42.

⁶⁰ 29 L.P.R.A. §§ 681-695.



W. Other Taxes

(1) Alcoholic Beverages Tax

Distillers, rectifiers, producers, manufacturers, and importers are generally taxed on distilled spirits, wines with or with less than 24% alcohol content by volume, imported champagne and sparkling or carbonated wines or imitations thereof (not over 24% alcohol content by volume), and beer, ale, porter, malt extract, and other similar fermented or unfermented products. If wines, champagne, and sparkling carbonated wines or imitations thereof have over 24% alcohol content by volume, they are considered distilled spirits. The tax is imposed on a per-wine gallon or a per-proof gallon.

Alcoholic beverage tax rates range from \$0.97 per-wine gallon up to \$31.29 per-proof gallon for the various classifications of distilled spirits, wines, champagne and sparkling wines.

(2) Construction Tax ⁶¹

The Autonomous Municipalities Act of Puerto Rico grants the municipalities the power to impose and collect construction taxes within the territorial limits of the municipality. The construction tax rate varies from municipality to municipality but is generally around 4% or 5% of the cost of the project. The cost of the project for work performed outside Puerto Rico should not be subject to the construction tax.

Specifically exempted from the construction tax are: (i) projects of nonprofit associations that provide affordable housing to moderate or low-income families that qualify under the National Affordable Housing Act; (ii) projects of nonprofit associations that provide affordable housing for persons 62 years or older that qualify under the National Affordable Housing Act; (iii) projects for the construction or rehabilitation of affordable housing qualifying under the New Housing Operation Public and Private Co-Partnership Program; (iv) projects for the construction of real property for leasing to moderate income families; (v) projects for the expansion of buildings that promote, under the industrial incentives laws, the increase of employment and for which the tax exemption decree is still in effect; and (vi) construction projects carried out under the management of an agency of the central government, or its instrumentalities, a public corporation, a municipality or an agency of the federal government. This last exemption is not applicable to construction projects carried out by a person acting on behalf of, or by contract or subcontract executed with an agency or instrumentality of the central government, municipal government, or an agency of the federal government.

There are also exemptions for medical facilities.

(3) Occupancy Tax

The room occupancy tax is 9% on the rates charged per furnished room in any building used for the rental of rooms to guests on a daily, weekly, or fractional basis, or for a global all-inclusive service. If the building facility or facilities include a duly authorized casino, the room occupancy tax is 11% of the rates charged per room. However, if the facility is authorized by the Puerto Rico Tourism Company to operate as a Puerto Rico inn (“parador”), the tax rate is 7%. Motels are subject to a 9% room tax if the daily rate exceeds \$5.00 a day. Facilities that operate as all-inclusive hotels are subject to a room tax equal to 5% on the total amount charged per day. Short-term supplementary lodgings that do not qualify as a hotel, condo-hotel, all-inclusive hotel, motel, Puerto Rico inn (“parador”), small inn, guest house, or apartment hotel, but are dedicated to the rental of rooms for fewer than 90 successive days, are subject to a 7% tax. These short-term supplementary lodgings may include houses, apartments, cabins, and villas.

The room tax is to be paid on the tenth day of the month following the month in which it was collected. A monthly return must accompany the tax.

Some municipalities have approved municipal ordinances imposing a tax on the guests of hotels, motels, guest houses, “paradores” and inns for the rooms that they rent thereat. The Municipality of Vieques has approved a Municipal Ordinance imposing a municipal occupancy tax in that municipality.

⁶¹ 21 L.P.R.A. § 4057.



X. Special Tax Treatment Entities

(1) Special Partnership

A Special Partnership is a partnership or corporation, that meets certain requirements and has elected not to pay any income tax on its income but, instead, to have the partners pay the tax on it, even though the corresponding income is not distributed. Although the eligibility of a partnership for special treatment depends on the nature of the partnership's income, it is the partner who is taxed on the ratable portion of the income as if he had carried on the business activity. No new elections for Special Partnerships are allowed after December 31, 2010.

A Special Partnership computes its gross income and deductions, to arrive at taxable income, in the same manner a regular partnership or corporation would, with certain exceptions. One exception is that special partnerships are not allowed a deduction for carryover net operating losses. This is so because every year the partners pick up their share of income or loss in their income tax returns.

In addition, all accumulated earnings and profits of an electing special partnership are deemed distributed during the first two years of the election and are generally subject to the 10% special tax on eligible distributions.

Also, a corporation (or partnership) before making the election may be subject to a built in gains tax at the corporate level during the ten year period beginning on the first day of the corporation's first tax year as a corporation of individuals.

(2) Corporation of Individuals

Like special partnerships, a corporation of individuals allows the flow through of income and losses to the owners, eliminating the double taxation of income. The income, deductions, gains, losses, and credits flow through to its shareholders with the same characteristics as if in the hands of the corporation.

An electing corporation (or partnership) that used the LIFO inventory method, flexible or accelerated method of depreciation, long term completed contract, or installment sales method for the tax year prior to the election to be treated as a corporation of individual is made must recapture as income these items in the last year before the election is made. The increase in tax resulting from the recapture is payable with the final income tax return of the regular corporation (or partnership), except for the tax resulting from the LIFO recapture which is payable in three equal installments over three taxable years. The first installment is payable with the final return of the regular corporation (or partnership).

In addition, all accumulated earnings and profits of an electing corporation are deemed distributed during the first two years of the election and are generally subject to the 10% special tax on eligible distributions.

Also, a corporation (or partnership) before making the election may be subject to a built in gains tax at the corporate level during the ten year period beginning on the first day of the corporation's first tax year as a corporation of individuals.

(3) Cooperatives

In general, most cooperatives enjoy exemption from paying income, property and use, excise taxes, municipal license taxes, among others.

(4) Public Private Partnerships⁶²

The Contractors in a Public Private Partnership shall be subject to a fixed income tax rate of ten percent (10%) over the net income derived from the operations provided in the Partnership Contract. Said special rate shall not apply nor shall it in any way alter the taxes levied by the P.R. Code related to foreign taxpayers. Neither shall it be subject to the surtax provided in Act No. 7 of March 9, 2009. Participants are exempted of paying tax on personal property. A contractor under a Partnership Contract may not receive the tax

⁶² 27 L.P.R.A. §§ 2601-2623



benefits provided for under the Economic Incentives Act for the Development of Puerto Rico, Act No. 73 of May 28, 2008.

(5) Registered Investment Companies

The net income of registered investment companies is computed using the following rules:

- Gross income includes all dividend and profit distributions received from corporations or partnerships that are exempt organizations or tax-exempt entities operating under the Puerto Rico Industrial Incentives Act of 1948 or any other tax exemption law of Puerto Rico.
- Capital gains and losses are disregarded.
- Net operating losses are disregarded.
- The requirement that net income for a short period on account of a change in the accounting period be annualized is disregarded.

The flexible depreciation and accelerated depreciation methods are not available.

The net income of a registered investment company, computed in the manner described above, is taxed at regular Puerto Rico corporate income tax rates. However, if the registered investment company distributes during the year, as a taxable dividend and/or as a dividend from industrial development income (IDI), an amount equal to at least 90% of its net income for the taxable year, it will be exempt from Puerto Rico income tax. A “taxable dividend” is a dividend made out of current or accumulated earnings and profits that does not qualify as an exempt dividend, a dividend from Industrial Development Income, or a capital gain dividend.

Registered investment companies are only subject to the municipal license tax on their undistributed net taxable income. This is an exception to the general rule of imposing the municipal license tax on the gross revenue.

The shareholders of a registered investment company residing in Puerto Rico must include in their gross income dividends that qualify as:(i) capital gain dividends; (ii) dividends from Industrial Development Income, but only to the extent that such dividends would have been taxable if received directly by the shareholders; and (iii) taxable dividends.

Capital gains dividends will be taxed in the hands of the shareholders as a gain from the sale or exchange of a capital asset held for more than six months. This means that long-term capital gain treatment will be granted to shareholders with respect to capital gains dividends received even if the transaction at the registered investment company level was a short-term capital gain.

Shareholders of a registered investment company that are nonresidents of Puerto Rico are subject to the withholding requirements of P.R. Code relating to withholding from nonresident individuals and non-Puerto Rico corporations not engaged in business in Puerto Rico. Under these provisions, dividend distributions out of earnings derived from sources within Puerto Rico will be generally subject to a 10% withholding. All dividends paid during the taxable year by a registered investment company to a nonresident shareholder are subject to withholding, except exempt dividends. The amount of taxable dividends subject to withholding is to be increased by the shareholder’s pro rata portion of the U.S. or foreign income, war profits and excess profit taxes paid on the profits on which such taxes are deemed to have been paid by the registered investment company or by any of its subsidiaries owned 90% or more by the registered investment company.

(6) Non for Profit Corporations

A corporation organized as a nonprofit corporation is not automatically exempt from Puerto Rico income, property, or municipal license taxes. It must qualify as such under the law and request a determination as to its tax exempt status from the Treasury Department.



(7) Insurance Companies

(a) Domestic Life Insurance

A life insurance company is an insurance company engaged in the business of issuing life insurance policies and annuity contracts (including combined contracts of life, health and accident insurance) whose reserves with respect therewith comprise more than one-half of its total reserves.

The gross income of a domestic life insurance company includes only certain gains realized on the sale of property. The net income is the gross income less the expenses directly related to the production and making of that gross income.

A domestic life insurance company is taxed on its net income and surtax net income at the same rates as corporations in general. In addition, a life insurance company is subject to a special tax of .10% over the total assets as of the close of its taxable year, in the separate accounts maintained and established under the provisions of the Insurance Code of Puerto Rico. The tax for any taxable year is reported and must be paid by the due date for the filing of the corresponding income tax return for the year.

(b) Foreign Life Insurance

A foreign life insurance company is also taxed on its net income and surtax net income at the same rates as corporations in general. The income subject to tax, however, is computed very differently from that of the domestic life insurance company. It may be subject to the special tax on separate accounts. It is also subject to the branch profits tax provisions that apply to foreign corporations and partnerships.

The net income and surtax net income subject to the corresponding tax rates of a foreign life insurance company is the commensurate part of the taxable income of the company as determined under the U.S. Internal Revenue Code which the sum of the direct premiums for life, accident, health and annuity contracts assigned to Puerto Rico bears to the sum of all direct life, accident, health and annuity contracts, as these are reported to the Insurance Commissioner of Puerto Rico.

(c) Mutual Insurance Companies Other Than Life

The gross income of mutual insurance companies other than life consists of all their income resulting from the operation of the business and from all other sources. This includes the gross premiums collected and received by them, less amounts paid for reinsurance, investment income, profits from the sale of assets, and all gains, profits and income reported to the Insurance Commissioner. In addition to deductions generally allowed to corporations, additional deductions are allowed for net reserve additions and payments (other than dividends) made on policy and annuity contracts.

(d) International Insurer ⁶³

An international insurer is exempt from income tax. Also exempt from income tax is the income of the international insurer's holding company, if it meets the requirements of the Insurance Code of Puerto Rico. To qualify as an international insurer or reinsurer under the IIRA, an insurance company must be approved by the Insurance Commissioner. International Insurers are also granted Tax Exemption Decrees by the Commissioner and the Secretary of Department of the Economic Development and Commerce, which are considered contracts among the parties, detailing the special tax treatment provided under IIRA. Notwithstanding the foregoing, taxable years of International Insurers, Branches, and International Insurer Holding Companies beginning after December 31, 2008 and before January 1, 2012 are subject to a temporary tax of 5% on the net income.

⁶³ International Insurance provisions are contained in 26 L.P.R.A §§ 4301



(8) Real Estate Investment Trusts (REIT)

A REIT is exempt from Puerto Rico income tax if it meets all the requirements for qualifying as a REIT for Puerto Rico tax purposes and during the year distributes to its beneficiaries 90% of its taxable income and 90% of its exempt income.

A REIT has the option of making distributions after the end of the taxable year but before the due date for the filing of the income tax return and electing to have such distributions regarded as distributed in the previous taxable year. To make this election, the REIT must accompany its tax return with a sworn statement, signed by the secretary of the trust or a person authorized by the Board of Directors of the trust or its equivalent, establishing that it is making the election and including the information as to the amount of dividends distributed and the dates of distribution.

A taxable dividend is a dividend distributed out of the retained or accumulated earnings of the REIT. Exempt dividends are dividends distributed out of amounts of income excluded from gross income under the P.R. Code. An exempt dividend must be designated as such in writing by the REIT and its beneficiaries must be notified of it by mail not later than 60 days after the end of the taxable year or on the dividend declaration date, whichever is later.

In computing the net taxable income of a REIT, the following adjustments must be made:

- No deduction is allowed for net operating losses;
- No deduction is allowed under the flexible depreciation rules or the accelerated depreciation rules; and
- If there is a change in the accounting period of the REIT, the resulting short year may not be annualized in the manner otherwise required under the law.

A penalty tax is imposed on the gain derived from a prohibited transaction. A prohibited transaction is a sale or disposition of: stock in trade; property that would be properly included in inventory; and property held primarily for the sale to customers in the ordinary course of business. This tax is equal to 100% of the net income derived from the prohibited transaction. Some exceptions may apply.

The beneficiaries of a REIT are subject to a 10% tax on the taxable dividends received from it. No tax is imposed on distributions of exempt dividends. The management of the REIT must withhold 10% of the distributed taxable dividends.

A REIT or any corporation, special partnership, LLC, partnership or any other legal entity wholly owned, directly or indirectly, by a REIT may benefit from the provisions of the Puerto Rico Tourist Development Act of 1993, as amended, except in relation to the exemption from income tax.

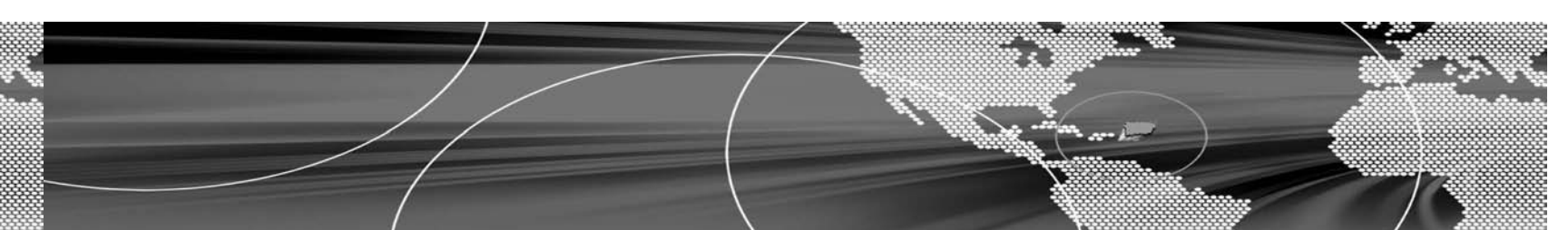
A U.S. REIT will be treated as a REIT for Puerto Rico tax purposes only after all the above requirements have been met. A U.S. REIT that qualifies for treatment as a REIT in Puerto Rico must file the corresponding Puerto Rico income tax return and any other returns and reports required by law.

(9) International Banking Entities (IBE) ⁶⁴

An IBE and the distribution of its earnings are generally exempt from Puerto Rico taxes. However, the “excess net income” of “taxable international banking entities” is subject to the regular income tax rates applicable to corporations and partnerships. Notwithstanding the foregoing, taxable years of an IBE beginning after December 31, 2008 and before January 1, 2012 are subject to a temporary tax of 5% on the net income of the IBE.

The net income of the bank must be determined under the provisions of the Puerto Rico Internal Revenue Code. The term “excess net income” means the amount of net income in excess of 20% of the total net income derived during the taxable year by the bank of which the international banking entity is a unit. The

⁶⁴ 7 L.P.R.A §§ 232-232x.



net income must be determined under the provisions of the Puerto Rico Internal Revenue Code. IBEs are also exempt from Puerto Rico property taxes and municipal license taxes.

(10) Employee-Owned Special Corporation

The net income of a special employee-owned corporation (SEOC) is determined in the same way as that of a regular corporation, except:

- There is no deduction for net operating loss,
- There is no deduction for foreign income taxes,
- There is no controlled corporation dividend received credit,
- Deductions for charitable contributions are not allowed, and
- Flexible depreciation is allowed.

In addition, the organizational expenses and expenses incurred by an SEOC to promote the sale of its membership shares may be deducted as ordinary and necessary expenses.

The accounting method elected by the SEOC must be the same accounting method used by its regular and special members. However, an SEOC may elect to use a taxable year different from the one used by its regular and special members.

The following items are excluded from the gross income of an SEOC and are exempt from Puerto Rico income taxation:

- The income credited to the collective reserve account and to the social account; and
- The income credited in the corresponding internal capital accounts of the regular and/or special members that is capitalized.

An additional incentive is offered to SEOCs that create new jobs. If the SEOC creates from three to five new jobs during the year, a 15% additional deduction based on the annual payroll or income advances is granted. If the SEOC creates from six to 10 new jobs during the year, a 20% additional deduction based on the annual payroll or income advances is granted. If the SEOC creates 11 or more new jobs during the year, a 25% additional deduction based on the annual payroll or income advances is granted.

If the SEOC is engaged in manufacturing, is not operating under a grant of industrial tax exemption, has taxable income exceeding \$200,000, and has maintained an average employment or working position for ordinary members of 20 or more persons during the taxable year, it may take an additional flat deduction of \$40,000.

An SEOC engaged in manufacturing that does not operate under a grant of tax exemption and that during the taxable year derives a total net income of less than \$20,000 per manufacturing job or working position for ordinary production members may opt, instead of the flat \$40,000 deduction, to take a deduction equal to 15% of the payroll or total advance production income up to a maximum of 50% of the credit notices for productivity and patronage distributed to regular and special members.

Regular and special members of an SEOC are entitled to a tax credit equal to 25% of the amount paid for the certificate of membership, up to a maximum of \$1,000. The credit is taken against the income tax for the year in which the payment for acquiring the membership certificate was made. However, if the credit exceeds the amount of income tax for that year, the credit may be carried over up to the next two years.

Regular and special members are subject to Puerto Rico income tax at regular rates on the corresponding share of the credit notices for productivity or patronage distributed to such members. However, the character of the items included in the taxable distributive share of a regular or special member are generally determined as if such items were realized directly by the corresponding member.

Any interest paid on the unpaid credit notices in the internal capital accounts of each of the regular or special members is fully exempt from Puerto Rico income tax.



Chapter 4: Incentives

1. Business, Manufacturing and Services

Puerto Rico has long been a destination for investment for industry, although the focus has shifted from heavy and labor-intensive manufacturing to high-technology, high-value-added, and services-oriented enterprises. The Puerto Rico Industrial Development Company is the primary government agency charged with promoting industry, foreign direct investment, and it is especially focused on attracting and developing high-technology enterprises like biosciences, information technology, and professional services.

A. The Economic Incentives for the Development of Puerto Rico Act (Act 73)

The Economic Incentives for the Development of Puerto Rico Act provides attractive tax and other incentives to foster investment in key sectors of Puerto Rico's economy.

(1) Eligible Businesses

Eligible businesses can apply to qualify for incentives under Act 73. In general terms, eligible businesses include: businesses established to manufacture products on a commercial scale; businesses established to render services on a commercial scale for foreign markets or for other eligible businesses in Puerto Rico; and businesses established to engage in a wide range of specific economic activities, such as scientific research and development, recycling, hydroponics, value added activities pertaining to port operations, software development, manufacture of renewable energy equipment, and others. In some cases, there are other criteria that must be met, but generally a wide range of economic activities will qualify as an eligible business under the Act.

(2) Application for a Tax Grant

Act 73 operates through a tax decree—issued for a period of 15 years—that the government of Puerto Rico grants to approved eligible businesses. The decree identifies and ensures the incentives to which the eligible businesses are entitled. To obtain a decree, an eligible business must submit an application, with all required supporting materials and fees, to the Office of Industrial Tax Exemption. Once the application is duly filed, the decree should be granted or denied within 70 days.

(3) Tax Incentives

Approved eligible businesses qualify for the following benefits:

(a) Income Tax Rates

Typically eligible businesses are subject to a 4% income tax rate and a 12% withholding tax rate on royalties. Alternatively, with approval from the Secretary of Economic Development, an eligible business may be subject to a 8% income tax rate coupled with a 2% withholding tax rate on royalties.

An eligible business engaged in a Novel Pioneer Activity –i.e. socially or economically beneficial activities that have not been carried out in Puerto Rico during the previous year—will be subject to a 1% income tax rate.

Income from economic activities that create or develop intangible property in Puerto Rico will be subject to a 0% tax rate.

An additional reduction of 0.5% from the fixed 8% tax rate will be available to eligible businesses that are established in a low or intermediate industrial development zone.

Eligible businesses that locate their operations in Vieques and Culebra shall be totally exempted from the payment of income tax for the first 10 years of their decree, after which they will be subject to a 2% tax rate.



(b) Withholding Tax Rates on Royalties or License Fees

Non-residents not engaged in trade or business in Puerto Rico will be subject to a 12% withholding tax on royalties or license fee payments for the use of intangible property in an eligible business. This rate may be reduced to 2% by the Secretary of Economic Development.

(c) Investment Income

Eligible businesses are not required to pay taxes on income derived from “eligible investments” which are specified in the Act and typically involve debt and/or equity investments in certain local real estate, business activities, and securities.

(d) Distributions

The stockholders or partners of a corporation or partnership with a decree shall be totally exempted from taxes on the distribution of dividends or profits.

Gains realized from the sale or exchange of equity shares of an eligible business or of substantially all of the businesses assets, if such sale is executed while the business's decree is still in force, shall be subject to a 4% tax. After the decree has expired, the tax treatment will be adjusted to limit the benefits to gains generated while the decree was in force.

No income tax shall be levied on or collected from the transferor or transferee with respect to the complete liquidation of an exempted business.

(e) Tax Credits

Eligible businesses that purchase products manufactured in Puerto Rico will be permitted to claim a credit of 25% of the purchase cost, up to a maximum of 50% of its tax liability; for products made from recycled materials, the credit shall be equal to 35% of total purchases up to the 50% limit.

Eligible businesses can receive a tax credit for each job created during the first year of operations. The size of the credit will depend where the exempted businesses are located: in Vieques and Culebra, the credit is \$5,000 per job; in a low industrial development zone, it is \$2,500 per job; and in an intermediate industrial zone, it is \$1,000 per job.

Eligible businesses can receive a credit, of 50% of the investment, for investments in research and development, clinical trials, toxicology tests, infrastructure, renewable energy, and intangible property.

Eligible businesses can receive a tax credit, of 50% of the investment, for investments in machinery and equipment for the generation and efficient use of energy. For eligible businesses that invest to generate energy for their own consumption, the credit will be capped at 25% of the businesses income tax. For eligible businesses dedicated to the production and sale of energy in Puerto Rico, the credit will be capped at \$8 million for each eligible business, up to an aggregate maximum of \$20 million for such investments by all eligible businesses per year.

All eligible businesses that are industrial clients of the Puerto Rico Power Authority can receive a tax credit of 3% of their electricity payments. A higher credit (7%) is available for eligible businesses that retain 25 employees or an average payroll of \$500,000 or more during the taxable year.

Eligible businesses can receive a credit for 12% of all payments made for the use or right to use intangible property in their exempt operation in Puerto Rico.

Eligible businesses can receive a credit of 50% of the amount of any investment in a “strategic project,” as defined in the Act.

Eligible businesses can receive a credit of 50% (1) of the cash amount used to purchase the majority (50% or more) of the equity interest or operational assets of an exempted business that is in the process of closing operations in Puerto Rico or (2) of the cash amount contributed to a small or



medium sized business in exchange for corporate stock or partnership interest used for construction or improvements of the physical facilities and purchase of machinery and equipment.

(f) Real and Personal Property Tax

Eligible businesses shall receive a 90% exemption from municipal and Commonwealth property taxes on personal property used in the businesses' development, organization, construction, establishment, or operation.

For the first five years of operations, eligible businesses shall receive a total exemption from the payment of property taxes on real property used for its central or regional corporate headquarters rendering centralized management services to affiliated entities.

Eligible businesses shall receive a complete exemption from real property taxes during the period authorized under the grant to carry out the construction, expansion, or establishment of the tax-exempt business, and during the first government fiscal year during which the business would have been subject to property taxes.

Eligible businesses can also take advantage of the benefit afforded by the Optional Self-Assessment, as described in the Act for Real Property Taxes. This method may be used exclusively for that property which should be properly considered as real property because of the use and location to which it is destined and that is used in the development, organization, construction, establishment or operation of the exempted business; and that property has not been assessed by the Municipal Property Tax (CRIM).

(g) Municipal License Tax and Other Municipal Taxes

- Eligible businesses shall enjoy full exemption from municipal taxes or municipal licenses that apply to the volume of their business generated during the quarter of the government fiscal year in which the exempted business commences operations and continuing for the 2 two following semesters.
- Eligible businesses shall be fully exempt from any tax, levy, fee, license, excise, rate or tariff imposed by any municipal ordinance on the construction of works to be used by the exempted business within a municipality (such taxes do not include the municipal license tax levied on the volume of business of contractors or subcontractors of the exempted business).
- Income obtained from investments that qualify shall be totally exempt from municipal licenses, municipal excises, and other municipal taxes.
- Eligible businesses enjoy the following exemptions from municipal licenses, municipal excises and other municipal taxes imposed by any municipal ordinance:
 - Exempted businesses in Vieques and Culebra shall enjoy 90% exemption.
 - Small or medium sized businesses shall enjoy 75% exemption.
 - Central or regional corporate headquarters engaged in rendering centralized management services to affiliated entities shall enjoy 100% exemption during 5 years from the date the exemption begins.
 - Other businesses shall enjoy a 60% exemption.



(h) Commonwealth Excise Tax and Sales and Use Tax

The following items directly or indirectly introduced or acquired by an exempted business will be totally exempt from Commonwealth excise and sales and use taxes during the life of the decree:

- Raw material (except hydraulic concrete, crude oil, partially manufactured products, finished oil products, and finished products from any other hydrocarbon mixture) to be used in Puerto Rico to manufacture finished products. Raw materials include: any product in its natural form, derived from agriculture or extractive industries; any product, residual product, or partially manufactured or finished product; and sugar by the bushel or in units of fifty (50) pounds or more to be used exclusively in the manufacturing of products;
- Machinery and equipment (and accessories thereof) used in the manufacturing process or in the construction or repair of ships, inside or outside the premises of a manufacturing plant;
- Machinery, trucks, or forklifts used exclusively and permanently to transport the raw material within the circuit of the tax-exempt business;
- Machinery, equipment, and accessories used to carry out the manufacturing process, or which the tax-exempt business is under the obligation to acquire as required under federal or Commonwealth laws or regulations for the operation of an industrial unit. The exemption shall not cover machinery, devices, equipment, or vehicles used in whole or in part in the administrative or commercial operations of the exempted business, except in those cases in which these are also used in at least 90% in the manufacturing process or in the construction or repair of vessels;
- Machinery and equipment that must be used by an exempted business to comply with environmental, safety and health requirements;
- Machinery, equipment, parts, and accessories used in experimental or reference laboratories;
- Machinery, equipment, parts, and accessories used in the preliminary phase of region exploration geared to the mineralogical development of Puerto Rico, and the dry docks and shipyards for the construction or repair of vessels;
- Fuel used by the exempted business covered by this Act in the cogeneration of electric power for its own use or for the use of its affiliate;
- Chemicals used by the exempted business in sewage treatment; and
- Energy efficient equipment, properly certified by the Energy Affairs Administration.

B. Special Incentives

The following special incentives have been created to encourage the establishment and retention of local and foreign investment in Puerto Rico.

(1) Basic Incentive for Job Creation

Companies that are promoted by PRIDCO⁶⁷, including both local and non-local businesses that meet their commitments related to job creation and retention, receive a basic incentive payment for each employee hired. The incentive is \$400 per employee for new businesses and \$250 per employee for existing business expansions. The company will receive an orientation from PRIDCO and must submit, within a year from the promotion date, certain information for evaluation.

⁶⁶ All these incentives are subject to evaluation. The commitments will be formalized through a contract.

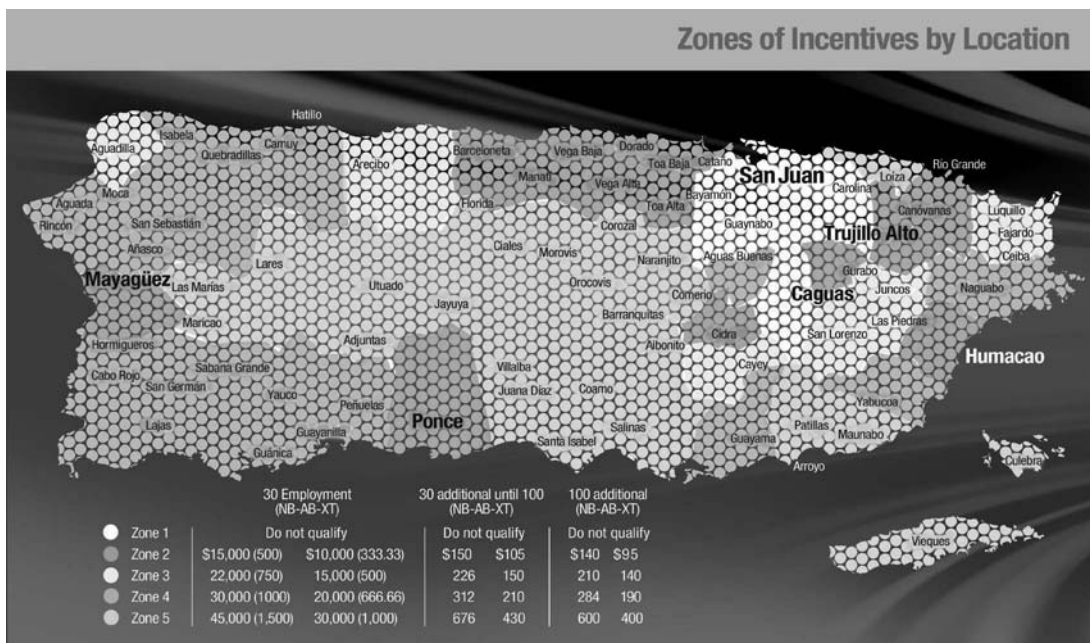
⁶⁷ PRIDCO can elect to promote businesses that are engaged in new business, newly added or expanded business, or the rescue of an existing business. Such promotion must be recommended by a promotion team within PRIDCO, endorsed by the Office of Strategic Planning and Economic Analysis, and approved by the Executive Director.

(2) Incentive for Job Creation and Location

In addition to the basic incentive above, companies that are promoted by PRIDCO can receive a location-based incentive for job creation outside of the San Juan metropolitan area. This incentive will be available for local and non-local businesses, and it depends on the geographical location of the company and the quantity of persons that will be employed. The following table depicts the range of the incentive per employee (the incentive will depend on the municipality in which the position is created):

Number of Employees	Incentive (\$/employee)	
	New Business	Additional Business/Expansion
First 30	\$500 - \$1,500	\$333 - \$1,000
Additional - 30 to 100	\$150 - \$676	\$105 - \$430
Additional – 100 and above	\$140 - \$600	\$95 - \$400

The following map shows the actual amount of the incentive based on the municipality in which the jobs are created. The company will receive an orientation from PRIDCO and must submit, within a year from the promotion date, certain information for evaluation.

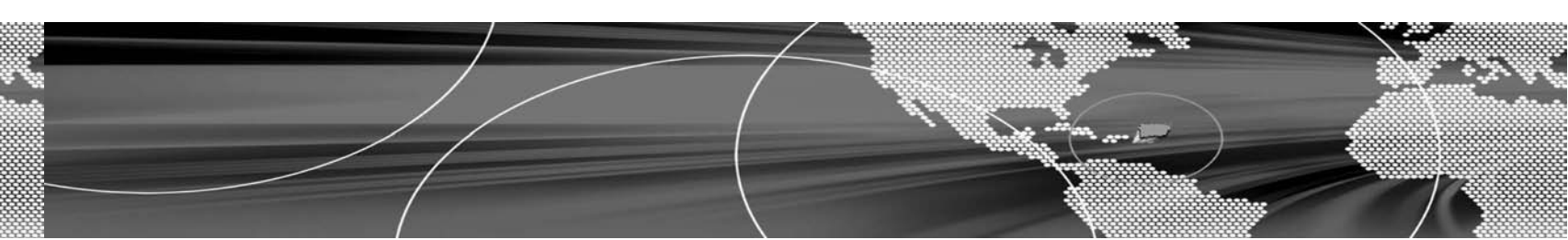


(3) Special Aid for the Rescue of a Project

Where a PRIDCO-promoted business intends to cease operations or reduce its workforce by 50% or more, a new owner committed to keeping at least 25% of the employees who are working at the moment of the rescue may be entitled to assistance. The new owner will receive an orientation from PRIDCO and must submit, within six months from the promotion date, certain information for evaluation.

(4) Incentive for Assisted Projects

Established companies that are not promoted by PRIDCO, including both local and non-local businesses, may be eligible to receive special aid for creating jobs that are “additional to” the base employment level established by PRIDCO for this company. The company will receive an orientation from PRIDCO and must submit, within a year from the promotion date, certain information for evaluation.



(5) Incentive for Strategic Projects

Companies that are promoted by PRIDCO that execute projects that have extraordinary importance for the economy of Puerto Rico—i.e., because they create and maintain a large number or high quality jobs, promote new technology, transfer technology business knowledge, or are otherwise considered highly meritorious by the Executive Director and the Board of Directors of PRIDCO—may be eligible for incentives. The company will receive an orientation from PRIDCO and must submit certain information for evaluation by PRIDCO and approval by PRIDCO's Board of Directors.

(6) Incentive for Infrastructure Development and Industrial Building Improvements

Companies that are promoted by PRIDCO may be eligible for an incentive to improve buildings that belong to PRIDCO that are necessary for the companies' operations. As a general rule, the infrastructure incentive is not available for improvements to private buildings unless they can help create and retain jobs, in which case Board of Directors approval is required.

The company will receive an orientation from PRIDCO and must submit certain information for evaluation by PRIDCO, including project drawings, specifications, cost estimates, agency approvals, and any other document required for the installation or construction of the improvements. The application for this incentive must be prepared and certified by a Licensed Engineer or Architect.

(7) Incentive for the Puerto Rican Industry Manufacturing of Furniture and Related Products, and the Apparel Industry and Similar Products

This incentive is available for Puerto Rican businesses that have been operating for at least one year in the manufacture of furniture or related products or in the manufacture of apparel or similar products that qualify for the economic incentives provided by the Act No. 8 of 1986. Moreover, this incentive can be granted in addition to other special incentives. Businesses that qualify for the incentive will receive a cash incentive of 3% of eligible sales, up to a maximum amount of \$150,000 per business per year. The incentive can be used to acquire raw materials, machinery or equipment; acquire and/or improve the company's manufacturing facilities; pay production payroll (where the company is not already participating in another reimbursement program); subsidize the lease of buildings housing the manufacturing process; acquire technical assistance, training in new production techniques, administration, promotion, and/or marketing; improve services through computerized equipment; promote the business's services and/or products outside Puerto Rico; make interest payments on loans related to operations; and other purposes established under Act No. 8 1986.

To qualify, a company must apply during July or August and submit all required documentation to PRIDCO. The application will be received and evaluated by the Office of Strategic Planning and Economic Analysis. Once is determined that the company is eligible, it can request the incentive at the end of each trimester.

(8) Incentive for Industries located in Vieques and Culebra

Companies that are promoted by PRIDCO may be eligible for a cash incentive of up to \$100,000 for establishing and operating a business in Vieques or Culebra. The incentive can be used for maritime, land, and aerial transportation of raw materials and finished products, including labor costs, tolls, and other expenses related to transportation, based on an evaluation by PRIDCO. The eligible company may request the incentive at the end of each trimester, after the commencement of operations has been certified, or at the end of the fiscal year, whichever is more convenient. The application must include detailed costs. The commitments will be formalized through a contract.



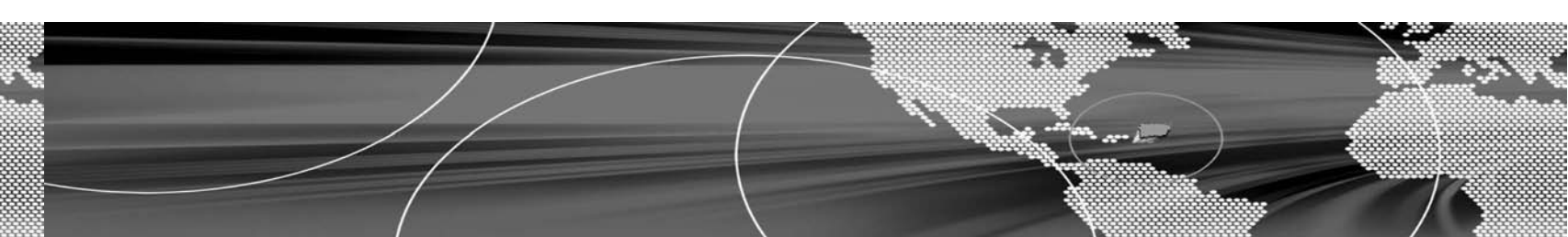
(9) Marketing Incentives Program

This matching fund is available to qualified, local, PRIDCO-promoted companies whose sales are greater than \$100,000 per year and whose commencement of operations has been certified. Through this incentive, PRIDCO will reimburse 50% of the cost incurred, up to \$50,000, for publicity, publications, promotional material, market research, and for special promotional activities. The company must submit the application to PRIDCO for evaluation at least 60 days before the promotional campaign or marketing activity will be carried out.

C. Special Fund for Economic Development

Puerto Rico is focused on attracting research and development to the island. Law 73 established a Special Fund for Economic Development (known as FEDE for its Spanish initials). This fund can be utilized for the following programs or uses:

- Scientific research, development of new industrial products or processes, improvement of existing products or processes in non-profit private education institutions;
- Special incentives for scientific and technical research and the development of new industrial product processes, improvement of existing products and processes, research and development directed to bio-science, information technology, bio-medics, agricultural biotechnology, aeronautical engineering and renewable energy, among others;
- Industrial incentives program administered by PRIDCO in furtherance of its industrial promotion efforts, including the improvement and development of industrial property;
- The development and establishment of special programs of self-employment or micro-enterprises to integrate persons who are economically straggled to the mainstream of modern socioeconomic development;
- Special incentives for the establishment in Puerto Rico of industries of strategic importance to the government, including the investment in venture capital funds that promote this type of industry, upon authorization by the Economic Development Bank;
- Special incentives for the acquisition of exempted businesses by their management;
- Special incentives for establishing programs to further and promote investment, technology and training of small and medium business;
- Financial support to community businesses;
- Special incentives for the establishment and development of the Strategic Projects in this Act;
- Support for entities or programs dedicated to:
 - furthering the establishment of networks of public Internet access and reduce the digital vide in PR;
 - rendering consulting services in information systems for small or medium businesses;
 - establishing incubation centers that provide a support structure and a proper framework for the establishment and development of new companies through specialized resources;
 - establishing centers and training programs in information and communication systems
 - for unemployed people throughout the island;
 - establishing educational programs at all levels with emphasis on languages, sciences and mathematics.
- Support regional initiatives for purposes of development of companies, research and development, establishment of incubators and other related objectives.



Similarly, the Puerto Rico Science, Technology and Research Trust (the Trust)—an autonomous entity that receives funding from the FEDE and the Scientific Research Fund of the University of Puerto Rico among other sources—provides a financing option for research, development, and infrastructure projects in the fields of science and technology. Approximately 30% to 40% of the Trust’s annual budget is used to finance corporate activities and projects that impact science and technology research and development in Puerto Rico. Between 30% and 40% is invested in academic projects (to match academic research initiatives), recruiting and retaining scientists, and creating an effective structure to commercialize products. Between 20% and 30% is earmarked for the development of research infrastructure, such as institutes, programs, incubators, and more.

Applications to the FEDE should be submitted to the Executive Director of PRIDCO. The application must be approved by the Board of Directors of PRIDCO.

2. Agriculture ⁶⁸

Puerto Rico provides incentives to promote the sustainable growth of the island’s agriculture sector.

A. The Agricultural Incentives Law

The Agricultural Incentives Law provides incentives to bona fide farmers and agricultural businesses. To qualify as a bona fide farmer, an applicant must obtain (1) a certification from the Secretary of Agriculture that the applicant is engaged in an agricultural business, as defined by regulation and (2) a determination from the Treasury Secretary that fifty percent (50%) of the applicant’s income derives from this agricultural business.⁶⁹ To obtain the certification from the Secretary of Agriculture, the applicant must apply through the Department of Agriculture’s regional offices, where local agronomists evaluate and, if appropriate, endorse the application. Then, the application is referred to department headquarters for further evaluation, where it is either denied or approved; if it is accepted, a bona fide agriculture certificate is issued to the applicant.

The Secretary of Agriculture has established the requirements and procedures by which a new farmer or agribusiness can establish itself as a “bona fide” farmer.

Bona fide farmers qualify for the following tax benefits:

Tax	Percent exemption
Taxes on agricultural equipment ⁷⁰	100%
Property taxes on land, buildings, equipment, fixtures, and vehicles owned, leased, or usufruct, which are used intensively in the agricultural business. ⁷¹	100%
Municipal taxes on intensive agricultural activity. ⁷²	100%
Exemption on stamp payments to Puerto Rico’s Treasury Department and fees to register property used in the agricultural business. ⁷³	100%
Contributions on earnings that derive directly from the agricultural business, if the farmer has not already benefited from the provisions.	90%
Tax credit for investment in eligible agricultural business. ⁷⁴	50%

⁶⁸ For more information on incentives and opportunities in the agricultural sector please visit www.agricultura.gobierno.pr

⁶⁹ 13 L.P.R.A. § 10402. The Secretary of Agriculture has established the requirements and procedures by which a new farmer or agribusiness can establish itself as a “bona fide” farmer

⁷⁰ 13 L.P.R.A. § 10405

⁷¹ 13 L.P.R.A. § 10406

⁷² 13 L.P.R.A. § 10407

⁷³ 13 L.P.R.A. § 10408 (a)

⁷⁴ See 13 L.P.R.A. § 10409 for further requirements and restrictions.

B. Annual Bonus for Agricultural Workers ⁷⁵

Law 42 of 1971 establishes that the Secretary of Agriculture of the Commonwealth of Puerto Rico will pay an annual bonus to every person who (1) produces agriculture or livestock, (2) maintains a farm or its direct dependencies, or (3) affects the storage, transportation, distribution, and marketing of farm produce.

C. Wage Subsidy Program to Eligible Farmers, Law 46 of August 5, 1989 ⁷⁶

Law 46 of 1989 subsidizes certain farm wages. Under this law, a farmer⁷⁷ initially has to pay farm employees the required wages from his own pocket. The Government of Puerto Rico, through the Agricultural Development Administration, will then reimburse the farmer (assuming the farmer otherwise complies with the law) the amount of the wage subsidy.

3. International Banking Entities (IBEs)

Puerto Rico's International Banking Center law permits the creation of international banking entities, which are essentially banks located in Puerto Rico that provide financial services to clients outside of Puerto Rico.

Puerto Rico is considered a foreign jurisdiction under the US International Banking Act of 1978, therefore all IBEs in Puerto Rico are exempt from the IBA's requirements for domestic financial institutions. Similarly, Puerto Rico IBEs are generally exempt from the U.S. Bank Holding Company Act (BHCA) and thus may be affiliated with commercial institutions (if the IBE accepts demand deposits and issues commercial loans, however, it will be considered a Bank under the BHCA). IBEs are given attractive tax treatment:

Tax	Tax Rate
Income Tax	0% ⁷⁸
Dividends / Other Distributions of Profits outside of Puerto Rico	0%
Distributions in Liquidation	0%
Municipal License Tax	0%
Property Tax	0%

4. International Insurers

Puerto Rico, both by its geographical location as well as due to its financial, administrative and professional services infrastructure, has the necessary attributes to attract this type of economic activity: it has a sophisticated and experienced financial services industry, which includes a highly developed insurance sector, as well as a trustworthy legal and a first-class regulatory framework and a communication and transportation system.

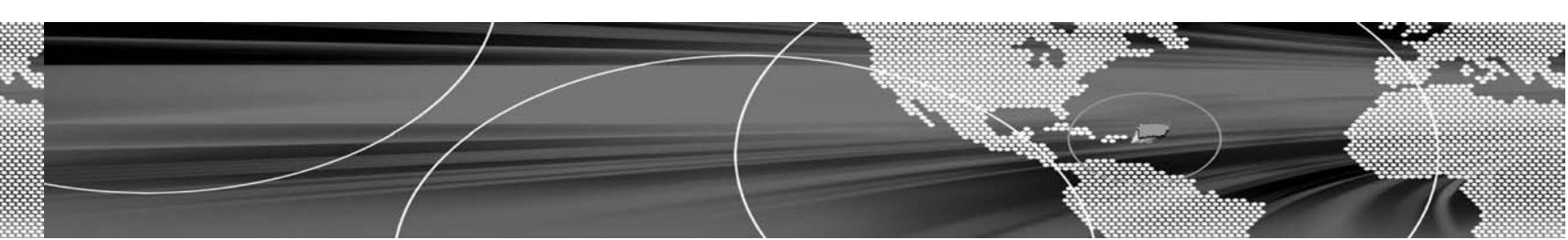
Act No. 399 of September 22, 2004, known as the International Insurers and Reinsurers of Puerto Rico, provided the principal legal grounds to develop Puerto Rico as an International Insurance Center, oriented to the exportation of insurance and reinsurance services in international markets. Simultaneously with said legislation, which added a new Chapter 61 to the Insurance Code of Puerto Rico, there was also adopted Act No. 400 of September 22, 2004, in order to add to the Internal Revenue Code of Puerto Rico, the different tax provisions applicable to the international insurers of Puerto Rico and its holding companies organized under Act No. 399. After the adoption of Act No. 399 and Act No. 400 in 2004, the Office of the Commissioner of Insurance adopted the complementary regulations contemplated by said legislation and since 2006 several companies have obtained certificates of authority to act as international insurers in Puerto Rico.

⁷⁵ 29 L.P.R.A. § 510-510k.

⁷⁶ 29 L.P.R.A. § 2031-2040.

⁷⁷ According to this chapter a farmer is any natural or juridical person who legally owns a farm and is engaged in general agricultural, and who pays agricultural workers at least the wages guaranteed by this chapter.

⁷⁸ Act 7 of 2009 instituted a temporary 5% tax on international banking entities which will expire on December 31, 2011. Law No. 7 of 2009, art. 29A



Puerto Rico's International Insurer and Reinsurer Act⁷⁹ (IIRA) provides for the creation of international insurers, branches of international insurers, international reinsurers and holding companies. Protected cell plans and securitization plans are allowed. To qualify as an international insurer or reinsurer under the IIRA, an insurance company must be approved by the Insurance Commissioner. Generally, an International Insurer is one that provides direct insurance only for risks outside of Puerto Rico, although it can provide surplus lines coverage and reinsurance for risks located in Puerto Rico. An International Insurer Holding Company is a Puerto Rico legal entity that holds shares or other securities of an International Insurer or another International Insurer Holding Company. A Branch is a business unit through which a foreign insurer not organized under Puerto Rico law carries out business transactions along the lines of an International Insurer. International Insurers, Branches, and International Insurer Holding Companies are given attractive tax treatment:

In addition, they are not required to file tax returns, and the revenues to non-residents are also exempt from taxation. A response to a complete application presented before the Office of the Commissioner of Insurance is granted within 60 days.

Tax	Tax Rate
Income Tax	0% ⁸⁰
Branch Profit Tax	0%
Dividends / Other Distributions of Profits	0%
Distributions in Liquidation	0%
Municipal License Tax	0%
Property Tax	0%

The recently enacted Act No. 98 of 2011 facilitates the establishment of entities that export insurance and reinsurance services, allowing Puerto Rico to compete with jurisdictions such as Bermuda, Cayman Islands or the State of Vermont, which for years have successfully engaged in promoting this type of activity. The aforementioned legislation fully harmonizes its provisions with the original legislative intent of providing a similar regulatory framework to the one existing in the other jurisdictions which serve as insurance and reinsurance services export centers. Under this new piece of legislation the capital stock of the international insurers and their holding companies, organized under Act No. 399, shall be considered assets located outside of Puerto Rico for purposes of the legislation on estates and donations applicable to non-resident individuals. Act 98 clarifies precisely that concerning the treatment of the benefits payable under life insurance or annuity contracts issued by international insurers to non-resident individuals or corporations and foreign partnerships. It also contractually guarantees, for a determined term, the tax regime that shall apply to the international insurers, since without the stability provided by such guarantee it is very difficult to reach the investment potential which these entities may generate. The amendments in this law also includes certain non-tax provisions which must likewise be added to Chapter 61 of the Insurance Code, all with the purpose that our legislation of the International Insurance Center may become an important tool for the continued development of the financial services sector in Puerto Rico.

⁷⁹ 26 L.P.R.A. § 4301-4327.

⁸⁰ Act 7 of 2009 instituted a temporary 5% tax on international insurers and international insurer holding companies which will expire on December 31, 2011. Law No. 7 of 2009, art. 29A.



5. Public-Private Partnerships ⁸¹

Puerto Rico has embraced public-private partnerships as a way to leverage the capital and expertise of the private sector with the management and oversight of the government to provide the public with needed assets and services. Puerto Rico's Public-Private Partnerships Authority is the public entity responsible for implementing public-private partnerships. Among its main functions are:

- Establishing priorities among key projects with high PPP potential;
- Conducting or commissioning analyses as well as feasibility, desirability, and convenience studies regarding specific PPP projects;
- Creating and approving regulations to govern procedures leading to the establishment of Partnerships;
- Evaluating the terms and conditions of each Partnership Contract and making recommendations to the PPPA Board of Directors and the Partnering Government Entity; and
- Entering into direct contracts with third parties for specialized services related to the establishment of Partnerships.

The Puerto Rico government plans to utilize PPP's for strategic projects in public infrastructure are sought in areas like roadways, airports, schools, power plants and water. As of January 2011, some 28 strategic projects had been identified, representing an estimated \$7 billion investment.

Transparent process for viable private investment in infrastructure:

1. Preparation for bidding process:

- a. Desirability Study
 - i. Analysis to determine if the proposed PPP project is appropriate and desirable for Puerto Rico
 - ii. Studies are placed on Website

2. Procurement process for Partnership

- a. Request for Qualifications (RFQ)
 - i. Proponents qualification process
 - ii. Allows to select the best companies to continue in the process
 - iii. RFQ is placed on Web site
- b. Request for Proposals (RFP)
 - i. Limited number of companies submitted proposals
 - ii. Briefings conducted to answer questions
 - iii. RFP is placed on Website
- c. Received final bids
 - i. Participating companies submit their proposals and final offers
 - ii. Partnership Committee makes final recommendation report to Board of Directors, Governor and or Delegate

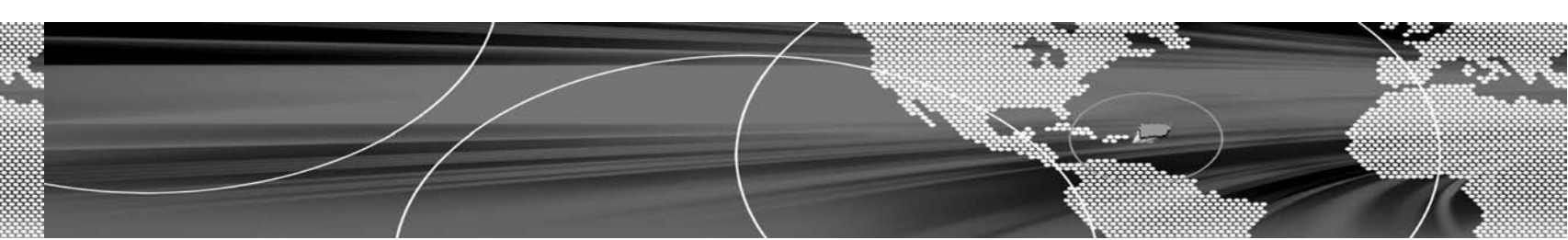
3. Grant Partnership Agreement

- a. Winner Selection
 - i. Approval of Board of Directors, Governor and/or Delegate
 - ii. Final decision is placed on Website

6. Act to Incentivize the Transferal of Individual Investors to Puerto Rico of 2011

Act to Incentivize the Transferal of Individual Investors to Puerto Rico of 2011 (HB 3657, as of December 12, 2011 pending Governor's signature) intends to mobilize investments (mutual funds, stocks, fixed income,...) from outside of Puerto Rico to Puerto Rico, through the movement of individuals (Resident Individual Investors: RII) who have not been residents of PR during the 15 years prior to the approval of this Act. The implementation of the Act looks to boost the economy of Puerto Rico through consumption and investment of the new residents. The tax exemption is not created for an unlimited time period, ending on December 31, 2035.

⁸¹ Investors interested in PPPs in Puerto Rico should visit http://app.gobierno.pr/index_eng.html



7. Film and Creative Services

The Puerto Rico Film Commission (PRFC) was created in 1999 to develop the film industry on the island, in part by offering incentives to off-island producers looking to film their projects in Puerto Rico. The PRFC's primary incentives are a 40% tax credit on PR production expenditures, and a 20% tax credit on production expenditures on non-resident talent provided they are subject to income taxation in PR. In addition, the PRFC also provides incentives for film-industry-related infrastructure projects.

The 40% tax credit is calculated on expenditures and is issued in the form of a transferable tax credit. Qualifying media projects include: (1) feature and short films (including soap operas); (2) documentaries; (3) series in episodes, mini-series, and similar television programs; (4) music videos; (5) national and international commercials; (6) video games; (7) recorded live performances and; (8) original sound track recordings. This "Puerto Rico spent" investment includes (but is not limited to) equipment, crew, actors, travel (if through a local travel agency), hotels, stage ground rental, and a percentage of the per diem. The tax credit is limited to 50% of the cash capital contribution.

To be eligible, the payments to Puerto Rico residents have to be made by a licensed Film Entity. The Film Entity does not need to be organized in Puerto Rico, and it can be a single purpose company established in Puerto Rico or a subsidiary registered to do business in Puerto Rico. A \$100,000 minimum spend requirement per project (\$50,000 for short films) is necessary to apply for these incentives. However, there are no per project or individual wage caps, nor caps on credits for payments to non-residential talent. The annual cap on credits for payments to Puerto Rico Residents is \$50 million (and may be expanded up to \$350 million).

With the signing of the Puerto Rico Film Industry Incentives Act of 2011 (Act. No. 27 of 2011), the PRFC expands many of its incentives to foment the local film infrastructure. These include:

Infrastructure Incentives

- 25% tax credit on costs for development or expansion of infrastructure projects
- Minimum hard costs of \$5 MM
- Maximum aggregate annual cap of \$10 MM and lifetime cap of \$150 MM for all infrastructure credits

Film Development Zone – PPP Operational Structure

- Persons engaged in this qualifying media and infrastructure projects, as well as the operator of the large-scale studio within the FDZ shall be eligible for favorable tax treatment:
 - 4% fixed income tax rate
 - 100% exemption on dividends
 - 90% exemption from municipal and state taxes on property
 - 100% exemption from municipal license taxes, excise taxes and other municipal taxes

The process is generally as follows:

- The producer requests a Film Entity License.
- PRFC requests the Treasury Department to endorse the license, and Treasury has 30 days to endorse or reject the license.
- The film's producer pays a license fee at 1% of the project's total Puerto Rico budget; payment is 50% up front and 50% when the audit is complete.
- A Film License is granted.
- The audit process begins (the audit can commence during production or after payment to Puerto Rico residents stop).

- The PRFC certifies that the principal photography requirement was met.
- The producer requests a tax credit.
- Treasury issues letter certifying the tax credit.
- The tax credit is either used or sold.

The whole process should take around 100 days after principal photography has finished and the Film Entity has met all the documentation requirements.

The Treasury Department may advance 50% of the estimated tax credit before shooting. In this case, the PRFC and the producer will estimate the tax credit based on the Puerto Rico budget. To obtain this advance, the Film Entity License must be obtained, the producer must provide a proof of completion bond or letter of credit in favor of the Treasury Department for the amount of the advance, or the PRFC audit must certify that 40% of the Puerto Rico budget has been spent.

Experience shows that the tax credit will generally net, after transaction costs, about 35%-36% of the production costs spent in Puerto Rico. Transaction costs include the license fee (1% of total Puerto Rico budget), a discount on the transfer of the tax credit of around 5-9% of the tax credit (use of local financing entities should minimize the discount), the monetization and incentive request process services, and guarantees for the 50% estimated tax credit advance through a completion bond or letter of credit.

8. Hotel/Hospitality Development

A. Introduction of Tax Incentives

Puerto Rico's tax incentives package offers hotel developers a competitive advantage over developing in other destinations. Act No. 74 of 2010, known as the Tourism Development Act of Puerto Rico, intends to facilitate the establishment of tourism development projects throughout Puerto Rico. Act No. 118 of 2010, known as the Law for the Municipal Economic and Tourism Development, aims to facilitate the establishment of world-class tourism development projects throughout Puerto Rico.

B. Tourism Incentives for the Economic Development of Municipalities of 2010

The main criteria for eligibility:

- Being a world-class hotel with a 4-star rating
- Planning for a diverse commercial and recreational establishments
- Other tourist attractions and facilities typical of 4-star hotels, including casinos
- The project must be developed exclusively with private capital

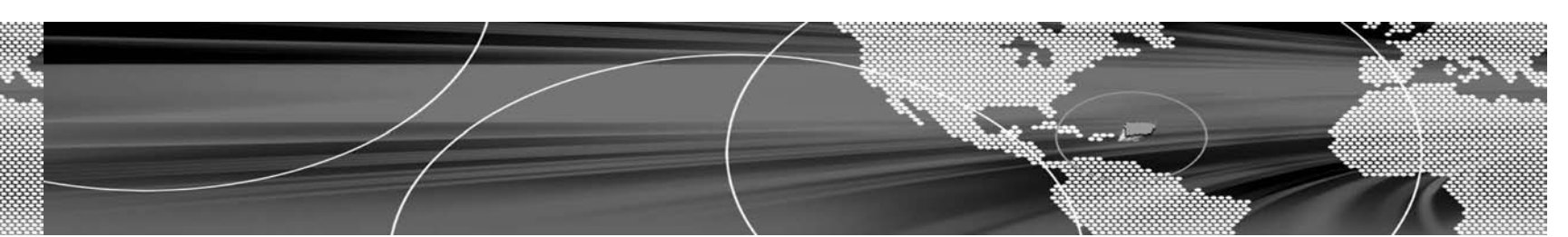
Tax incentives on net income from casinos will be granted according to the following scale:

Investment	Fixed Tax Rate
\$500 million	25%
\$750 million	15%
\$1.0 billion	10%
\$1.25 billion	8%

C. Tourism Development Act of Puerto Rico of 2010

The main criteria for eligibility:

- New facilities
- Existing facilities that have not been in use for three or more years.



- Existing facilities where substantial renovations or expansion will take place.

The following business activities qualify as tourism-related activities:

- Ownership or administration of (1) hotels, condohotels, timeshares/vacation clubs, hostels, guesthouses, excluding the operations of casinos, (2) theme parks, golf courses, marinas for tourism purposes, port facilities in areas that promote tourism activities, (3) natural resources as a source of entertainment value, and (4) other entertainment or recreational tourism-related facilities.
- A business operation dedicated to renting or leasing to an exempt business dedicated to tourism-related activities.

Benefits under this law will remain valid for a period of 10 years from the starting date of the eligible tourism-related project, and the business operation will be entitled to a 10-year extension:

Tax	Exemption Rate
Income Taxes	90%
Property Taxes	90%
Municipal License Taxes	100%
Excise Tax*	100%
Municipal Construction Tax	100%

A tax credit of 10% of the total project cost, or 50% of cash from investors (whichever is lowest) will also be granted.

D. Assistance with Project Conceptualization and Permitting

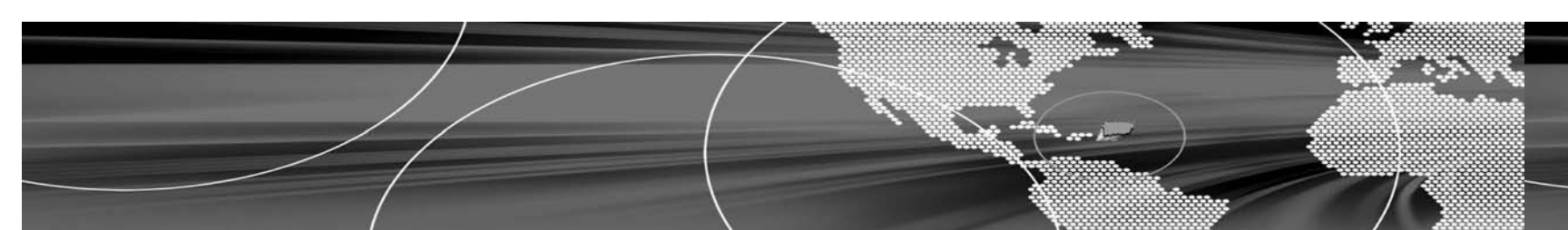
The Puerto Rico Tourism Company also can act as a facilitator for hospitality projects that it endorses. Specifically, if the project complies with certain parameters, PRTC can act as the lead agency-proponent during the environmental planning phase, review projects drawings, coordinate with other agencies to obtain permits and endorsements, and provide technical engineering, architecture and planning assistance.

E. Financial Advisory Services

The Puerto Rico Tourism Company can provide financial advisory services to small inns, paradores, and hotels. The PRTC financial advisory team focuses on increasing project profitability, particularly during challenging economic times. This includes: (1) a site visit by experts in hotel operations and marketing and quality control who investigate the proposed or existing hotel from an operational and guest experience point of view; (2) the preparation of a 10-year financial projection, using the uniform system of accounts for the lodging industry, breaking down the hotel's operational costs and revenues to identify possible cost savings and revenue maximization opportunities (this projection is done in conjunction with the owner or developer as a training opportunity and to encourage the use of uniform pro-formas). Information from step one and the projections from step two are then provided to the owner or developer of such venues as recommendations on how to improve their business.

F. Incentives for Local Certified Suppliers

The Puerto Rico Tourism Company reimburses cruise ship owners ten percent (10%) of food and beverage purchases made from Certified Local Suppliers while the cruise ship is docked at any Puerto Rico port. The cruise ship owner must submit copies of all invoices for purchases from any Certified Local Supplier and a detailed log of its purchase receipts for the end of each calendar month. PRTC will reimburse the



cruise ship owner up to 10% of the reported purchases within thirty calendar days after receiving this documentation. During the Regular Term of this regulation, PRTC will also reimburse the cruise owner an additional 5% for purchases of products from or manufactured in Puerto Rico (as certified by the Puerto Rico Industrial Development Company and the Puerto Rico Department of Agriculture) made while docked at any Puerto Rico port.

9. Cruise Industry

The cruise industry is one of the main sectors of Puerto Rico's tourism and economy, not only because of its economic impact, but also by the Island's image before the world. In fact, Puerto Rico is perhaps one of the most important places for the cruise industry. The visits from these ships to Puerto Rico have a direct economic impact of more than \$245 million per year, since through them, near 1.2 million passengers visit annually.

Act No. 113 of 2011 known as the Law for the Promotion and Development of the Cruise Ship Industry in Puerto Rico further strengthens Puerto Rico's competitiveness in the cruise industry, including key segments within the industry as the supply chain, service providers and cruise lines. The new law provides a string of incentives to promote transit and homeport cruise visits, spur travel agencies to sell packages to non-residents that include both a cruise and a stay in a hotel in Puerto Rico; the purchase of products in Puerto Rico, as well as the local procurement of ship maintenance and repair services; and for promoting excursions to cruise ship passengers. Act No. 113 of 2011 simplifies the industry's dealings with the government making the process of obtaining incentives more efficient, transparent and simple. For that reason, the mandate creates two funds, one to be managed by the Puerto Rico Tourism Company and another to be managed by the Ports Authority. The new law applies to all of the island's ports.

10. Education and Training – The Work-force Investment Act

The Puerto Rico Human Resources and Occupational Development Council (HRODC) administers funds received by Puerto Rico under the federal Workforce Investment Act (WIA). The program offers workforce training incentives to businesses through on-the-job-training, customized training, combined programs, and retraining:

- On-the-Job training: WIA reimburses up to 50% of the salary of the participant for the duration of the training, which will vary according to the occupation and the participant's professional and educational experience level.
- Customized training: WIA reimburses up to 50% of the salary of the participant as compensation for extraordinary costs and additional supervision that comes with the training.
- Combined program: WIA grants 100% of training costs and up to 50% of the participant's salary for the duration of the training.
- Retraining: WIA grants 100% of the costs of retraining employees to handle new tasks and up to 50% of the salary of the participant during the retraining period.

11. Foreign Trade Zones

Puerto Rico has the largest noncontiguous Foreign Trade Zone (FTZ) system in the United States. The system allows companies to obtain significant financial savings, since raw material, components, and packaging can be transported tax-free throughout these zones and items shipped abroad after processing are exempt from U.S. taxes. Benefits include:

Puerto Rico's FTZs are discussed in more detail in Chapter 6 below.

12. Small and Medium Business

Small- and medium-sized enterprises (SMEs) play a significant role in the economy of Puerto Rico, and the government is focused on facilitating their growth. Two governmental agencies are particularly focused on SMEs: the Economic Development Bank and the Puerto Rico Trade and Export Company.



A. The Economic Development Bank ⁸²

The Economic Development Bank (EDB) offers financial support to SMEs through: asset-based loans; participation loans with private financial institutions or under the SBA 504 loan guarantee program; mezzanine financing or capitalization loans; tourism project loans; management buy-out loans; and credit lines for operational capital. The EDB's specific financing programs are described in more detail in Chapter 8 below.

Economic Development Bank Loans include:

- Loans of up to \$500,000 for women entrepreneurs
- Loans of up to \$5 MM for agricultural projects
- Loans of up to \$500,000 for new business-owners
- Loans of up to \$300,000 for environmentally friendly projects
- Loans of up to \$5 MM for businesses that help their industry
- Line of credit of up to \$750,000 for federal contractors
- Line of credit of up to \$750,000 for companies looking to export

B. The Puerto Rico Trade and Export Company

The Puerto Rico Trade and Export Company (CCE by its Spanish name, Compañía de Comercio y Exportación) is a public corporation under the Department of Economic Development and Commerce's umbrella. CCE's mission is to foster the development of trade with special emphasis on small and medium sized businesses, and the export of Puerto Rican products and services to other countries or regions. Among the services it provides are the following:

(1) Financing and Consulting Services

CCE offers consulting services on matters such as how to establish a new business or how to expand an existing business, available options for financial help in state and federal agencies, and commercial projections and financial statements, among others.

(2) Foreign Trade and Business Development Institute (known as ICEDE for its Spanish acronym)

ICEDE designs functional training courses to instruct SMEs on the latest business trends. ICEDE is accredited by the Association for Continuing Education and Training and offers over 50 kinds of training geared to improving businesspersons' capacity and knowledge on topics such as human resource management, international trade, labor laws, computer programs, and others.

(3) Voluntary Chain Program

The Voluntary Chain Program permits groups of independent businesses to unite under one name to create a common market and strengthen their competitiveness. Voluntary Chains must be endorsed by CCE. Voluntary Chains are exempt from municipal license taxes for the volume of their generated sales and inventory tax payments. They tend to benefit from reduced operational expenditures, more bargaining power to obtain better terms and prices on group purchases, and stronger brands. Each owner can have up to five establishments within the chain.

(4) Commercial Facilities

CCE's real estate division can provide storage facilities for product distribution. CCE manages strategically located warehouses and commercial facilities in San Juan, Ponce, and Mayagüez. From these warehouses, clients distribute consumer goods such as food, pharmaceuticals, chemical products, and others to local and international markets. CCE also maintains the facilities known as the Centro Mercantil Internacional, the Distribution Center, and the Foreign Trade Zone 61 in Guaynabo.

(5) Puerto Rico Exports

This program seeks to stimulate and promote Puerto Rican exporting activity by providing analyses of a business's exporting potential, support in identifying potential international markets, technical assistance in the exporting process, workshops and seminars on international trade, and participation in international business fairs and missions, among other benefits.



(6) Free Trade Zone 61

Businesses can reduce their storage and operational costs when they establish operations in Foreign Trade Zone 61 or create a sub-zone within their place of operation. This can eliminate or postpone merchandise taxes and duties.

(7) Puerto Rico World Trade Center (PRWTC)

The PRWTC provides access to the best ideas in international business, provides access to new international marketing channels, and extends the benefits of the World Trade Center Association to its members. PRWTC offers a wide range of services for businesses interested in internationalizing their products and services: business training, meeting rooms, local and international business missions and fairs, international business services and counseling, and the international business library.

C. Credit for Electric Power

The Puerto Rico Electric Power Authority (PREPA) is authorized to grant a 10% credit, up to a maximum of \$40 per month or \$480 per year, to small retailers or nonprofessional personal logistics facilities with seven or fewer employees that are located in urban centers.

13. Renewable Energy

Puerto Rico is entering a new age in terms of its diversification of energy sources with the implementation of a new public energy policy and programs to diversify energy sources, ensuring that the generation of electricity on the island is affordable, viable and sustainable. Act No. 82 of 2010 also known as the Energy Diversification by Means of Sustainable and Alternative Renewable Energy Act was approved on July 19, 2010 as well as Act No. 83 of 2010 also known as the Green Energy Incentives Act

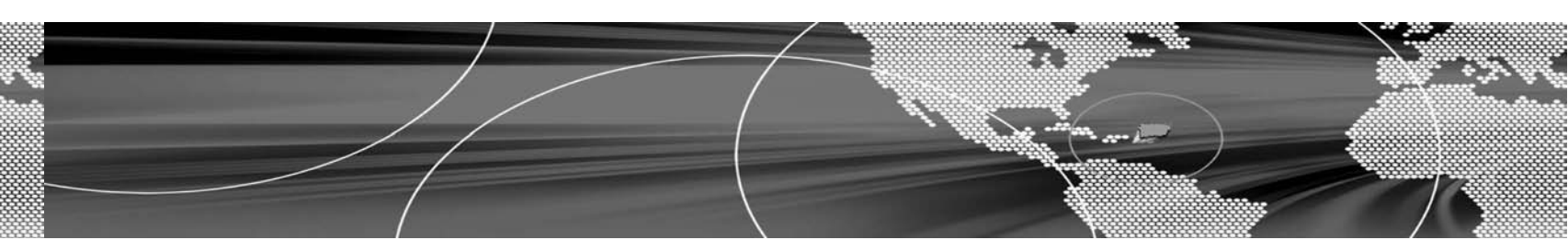
A. Energy Diversification by Means of Sustainable and Alternative Renewable Energy Act of 2010

- Recognizes many sources of renewable energy utilizing various technologies
- Sets a hard target of 12% renewable energy production by 2015, and 15% by 2020 with a requirement for retail energy providers to establish a plan to reach 20% renewable energy production by 2035.
- Establishes Renewable Energy Certificates (“RECs”) as legally-recognized assets that can be purchased, sold, traded, and transferred separately from electric power.
- Mandates the implementation of a renewable registry, an electronic platform to manage the issuance, tracking, and trading of RECs.
- Creates a permanent Renewable Energy Commission as an oversight entity focused solely on the implementation of the RPS

B. Green Energy Incentives Act of 2010

- Creates a Green Energy Fund (“GEF”) through which the government of Puerto Rico will co-invest \$290 million in renewable energy projects over the next 10 years; initially funding of \$20 million which began on July 1, 2011 (steps up to \$40 million by fiscal year 2016).
- Through the GEF, the PR Energy Affairs Administration will offer cash rebates of up to 60% on the cost of installing Tier 1 or small projects (0-100kW) for residences and small businesses and up to 50% on the cost of Tier 2 projects (100 kW-1 MW) for commercial or industrial use. ‘
- The Tier 1 rebate program is managed through a reservation process whereas the Tier 2 program is managed through a quarterly competitive process (“reverse auction”).

⁸² See <http://www.bdepr.org/bdepr/creditoempresarial.php> and <http://www.bdepr.org/bdepr/creditoagricola.php>.



14. Housing Incentives Act of 2010

Act No. 132 of 2010, known as the Housing Incentives Act (Impulso a la Vivienda by its Spanish name), created a new incentives program which aims to reduce the inventory of housing and other properties and jumpstart the real estate market.

The Housing Stimulus program was launched in September 2010, and was slated to last through June 30. Due to the success of the program — for sellers, buyers and the banking sector — the program has been extended until December 2012 (Benefits will be phased out until December 2012).

Under Act No. 132, which gave life to the stimulus program, homebuyers are eligible for benefits including: exemption from payment of stamps and vouchers at the time of purchase; exemption from property taxes for five years; tax exemption on capital gain realized on the sale or purchase of existing residential and commercial properties, provided their value does not exceed \$ 3 million; tax exemption on future capital gain on the sale of a new property; those purchasing an existing residential property only pay half the tax rate on capital gains; and 50 percent discount on charges for stamps and vouchers on mortgage cancellations.

The program has proven to be very successful in Puerto Rico, new and existing home sales increasing substantially on a year-over-year basis, while at the same time the mortgage market in the United States mainland shows negative growth on a year-over-year basis, according to U.S. Census data.

15. Export Services Act of 2011

The Export Services Act of 2011 (SB 2313, as of December 12, 2011 pending Governor's signature) main objectives are to turn Puerto Rico into an international hub of export services, retain local talent, attract foreign talent and foreign capital and create a special fund for promoting the establishment of new businesses to export services from Puerto Rico.

The Act includes, but is not limited to, the following designated businesses: research and development; advertising and public relations; economic, environmental, technological, scientific, managerial, marketing, human resources, information systems, engineering, auditing, and other consulting services; advising and consulting on matters related to any industry or business; commercial art and graphic services; production of engineering and architectural blue prints and designs; advanced professional services such as, legal, tax and auditing services; centralized managerial services including, but not limited to, strategic direction, planning and budgeting performed for affiliated entities and by a regional headquarters; electronic data processing centers; among many others.

Tax rate and tax incentive period:

- 4% income tax.
- It can be reduced to 3% when:
 - more than ninety percent (90%) of all gross income of the company and its affiliates that conduct a designated business derive from exporting services and;
 - rendered export services are considered Strategic Services, as described under the Act
- 0% income tax rate on dividends or profit distributions
- 90% exemption of real and property taxes on call centers, corporate headquarters and distribution centers.
- A 20 year decree which can be extended by a period of 10 years when: designated businesses fulfill the requirements of employment, income, investment and other factors mentioned in the decree that proves to the Secretary that the extension of the decree will benefit the economic and social interests of Puerto Rico.

Chapter 5: Work Force and Labor Laws

1. Puerto Rico's Work Force

A. Sectoral and Occupational Breakdown of Puerto Rico's Work Force

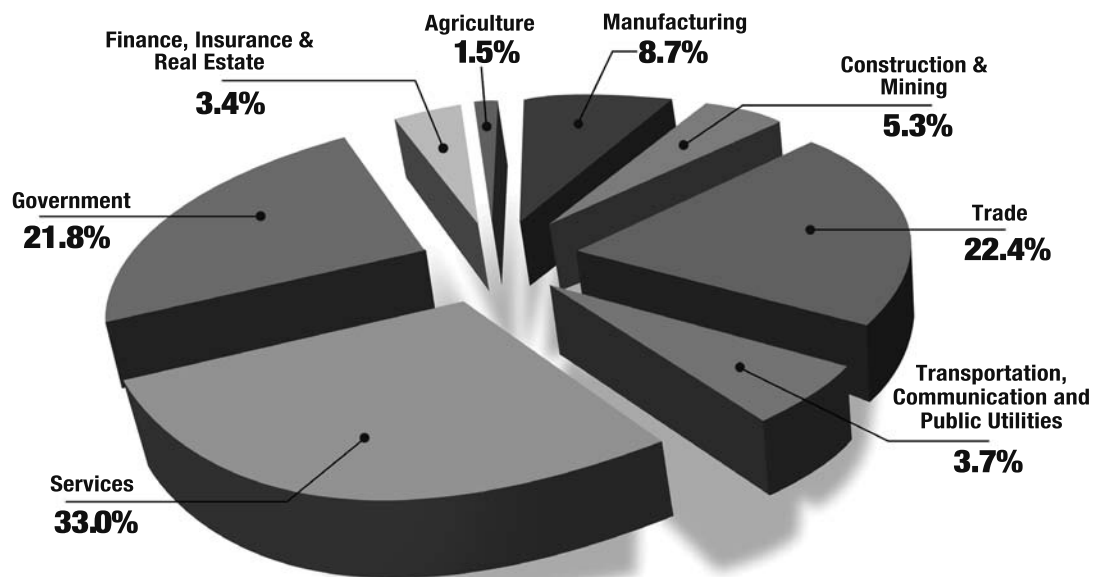
According to the Puerto Rico Department of Labor and Human Resources, as of September 2011, the labor force was around 1.3 million strong, of which some 1.1 million were employed. Of those workers, 76% worked in the private sector including the self-employed and 24% in government. The Puerto Rico Department of Labor Household Survey provides a more detailed sector breakdown:

Broken down by occupation, Puerto Rico's employed labor force was comprised of: 32.0% managers, professionals and executives; 25.9% technical, sales and administrative support; 7.8% craftsmen, foremen and related workers; 9.4% operators and related workers; 16.4% service workers; 2.6% farm workers; and 5.9% general laborers workers. More detailed information and occupational breakdowns by gender are in the table below:

Employed Persons by Major Occupational Group and Sex⁸³

(September 2011, thousands of personas 16 years of age and over)

Employment Share by Sector (Household Survey): September 2011



⁸³ Source: Puerto Rico Department of Labor & Human Resources, Household Survey.

B. Education Levels in Puerto Rico's Work Force

The 1,080,000 workers employed in Puerto Rico in September 2011 had the following education levels: 297,000 (27.5%) had obtained a high school diploma; 176,000 (16.3%) had completed an associate's, technical or vocational degree; 282,000 (26.1%) had earned a bachelor's degree; 113,000 (10.5%) had taken courses in postsecondary studies; 93,000 (8.6%) had a post-graduate degree; 64,000 (5.9%) had a master's degree; 25,000 (2.3%) had a Ph.D.; and 4,000 (0.4%) had a law degree.

Employed Persons by Occupation (September 2011 – In Thousands)


Description	All	Male	Female
All Groups	1,080	578	501
Managerial & Professional Occupations	346	160	186
Professional	122	49	73
Teachers	71	18	53
Administrators, Managers & Executives	138	82	57
Post Secondary Studies	-	-	-
Semi-professionals	14	11	3
Technical, Sales & Administrative Support	280	87	194
Secretaries, Typist	47	a/	45
Sales Representatives & Related	71	43	27
Health Technicians	33	7	26
Craftsmen, Foremen & Related	84	83	a/
Mechanics & Repairmen	33	33	-
Carpenters, Masons & Related	36	36	-
Craftsmen & Other Workers	15	14	a/
Operators and Related	101	69	32
Operators, Assemblers & Inspectors	46	25	21
Transportation & Related Operators	31	29	a/
Textile and Apparel Machine Operators	14	6	8
Service Workers	177	94	83
Domestic Services ^{2/}	10	a/	9
Protective Services	64	47	17
Other Services	103	46	56
Farm Workers	28	27	a/
Farmers & Farm Managers ^{1/}	5	5	-
Farm Laborers & Foremen ^{1/}	23	22	a/
General Labor Workers	64	60	4

^{1/} Data not available; insufficient data to estimate the number of female workers

^{2/} Data not available; insufficient data to estimate the number of male workers

Source: Puerto Rico Department of Labor and Human Resources, Household Survey, September 2011.

Note: Numbers may not add up to the total due to rounding.



Last Completed Grade	All	Men	Women
Totals	1,080	587	501
1st to 11th Grade	106	77	29
High School Diploma	297	192	104
Postsecondary Studies, no degree	113	62	51
Associate/ Technical/ Vocational Degree	176	96	80
Bachelor's Degree	282	99	182
Master's Degree	64	25	39
Juris Doctor	4	a/	a/
Doctorate	25	13	12
Other 1/	4	4	-
Median Years of Education	13.2	13.1	13.3

1/ Includes Special Educational Programs.

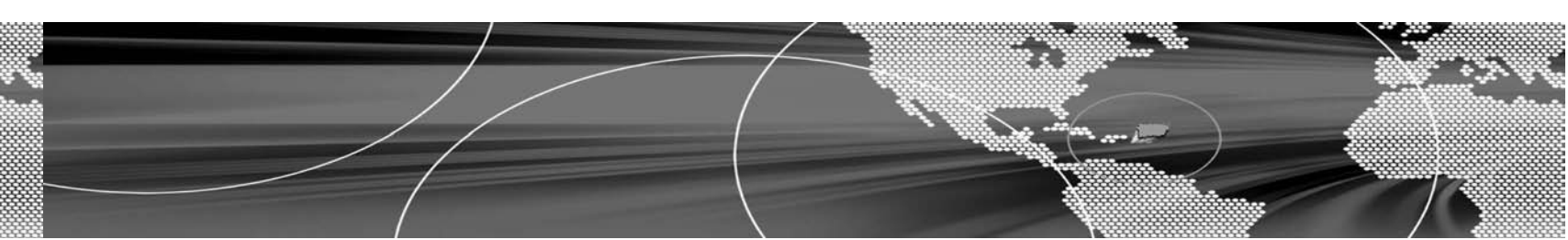
Source: Puerto Rico Department of Labor and Human Resources, September 2011

Notes: Numbers may not add up to the total due to rounding.

Puerto Rico Community Survey 2010 Scholarship Statistics

Population Over 25 Years Old	2,444,933	100%
Less than Ninth Grade	484,138	19.8%
From 9th to 12th Grade, No Diploma	262,682	10.7%
High School Graduate (includes equivalency)	623,709	25.5%
Some college, no degree	317,797	13.0%
Associate's Degree	212,186	8.7%
Bachelor's Degree	389,954	15.9%
Graduate or Professional Degree	154,467	6.3%
High School or Higher	1,688,113	69.5%
Associate Degree or Higher	756,607	30.9%
Bachelor's Degree or Higher	544,421	22.3%

Source: United States Census Bureau, 2010.



According to the latest Puerto Rico Community Survey conducted by the U.S. Census Bureau, 389,954 Puerto Rican residents that are 25 years or older had a bachelor's degree in 2010, and 154,467 residents in the same age group had graduate and professional degrees. Combined, 22.3%% of Puerto Rico residents that are 25 years or older have a bachelor's degree or higher.

Puerto Rican universities and other postsecondary institutions graduated 35,719 students in academic year 2009, conferring 17,082 bachelor's degrees, 6,083 masters degrees; 5,425 associates degrees; and 1,445 Ph.D.'s.

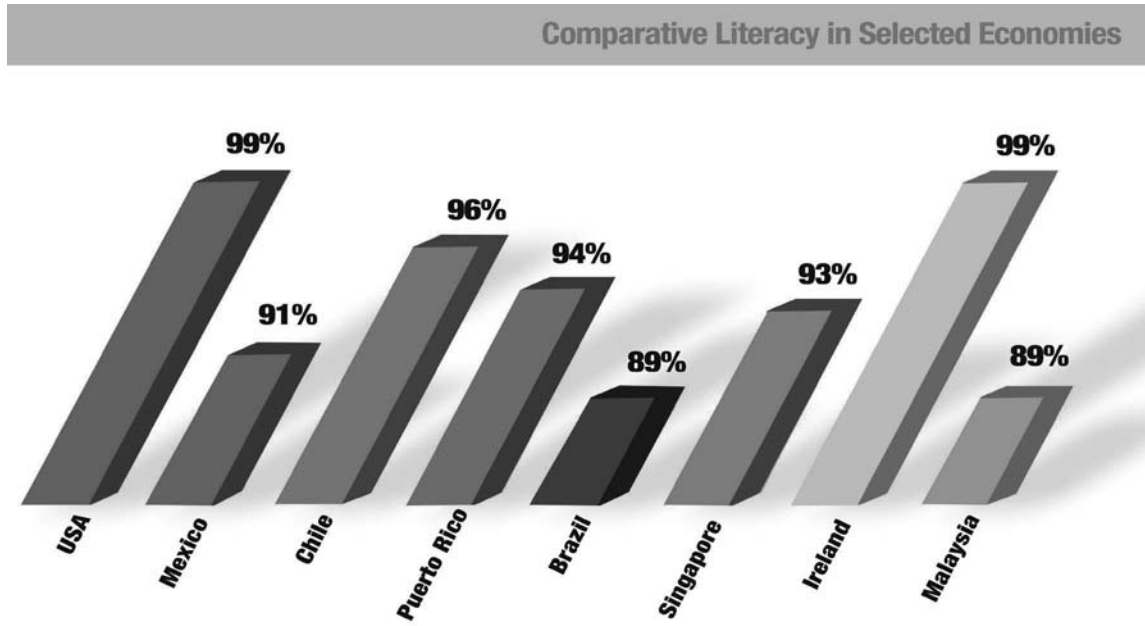
Higher Education Degrees Awarded in Puerto Rico

Academic Year	2003	2004	2005	2006	2007	2008	2009
Undergraduate Degrees							
Level/Totals	25,502	25,716	24,920	25,801	26,156	26,928	27,852
Certificate	3,642	3,907	3,879	4,222	4,633	5,189	5,345
Associate's	5,169	4,450	4,428	4,481	4,453	4,972	5,425
Bachelor's	16,691	17,359	16,613	17,098	17,070	16,767	17,082
Graduate Degrees							
Level/Subtotals	4,580	5,090	5,687	6,662	7,323	6,893	7,867
Certificate	259	242	274	288	270	261	339
Master's	3,292	3,751	4,267	5,188	5,775	5,199	6,083
Doctorate	1,029	1,097	1,146	1,186	1,278	1,433	1,445
TOTAL	30,082	30,806	30,607	32,463	33,479	33,821	35,719

Source: Integrated Postsecondary Education Data System (IPEDS)

⁸⁴ The American Community Survey is a nationwide survey designed to provide communities a fresh look at how they are changing. The Puerto Rico Community Survey (PRCS) is the equivalent of the American Community Survey (ACS) for Puerto Rico.

Puerto Rico's literacy rate of 94% is among the highest in the world.



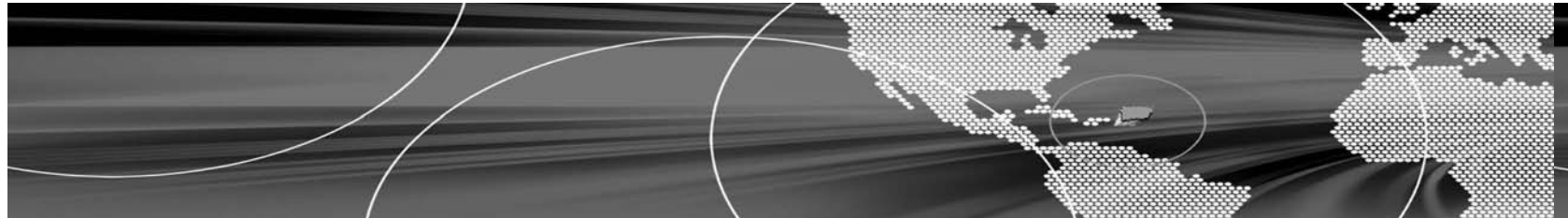
Source: CIA Factbook, 2009.

C. Wage Comparison between Puerto Rico and the U.S.

According to the Bureau of Labor Statistics' State Occupational Employment and Wage Estimates of May 2010, Puerto Rico's mean hourly wage was 39.5% less than that of the U.S. national estimate. Details of the wage comparison by occupation are listed in table below and can be accessed in <http://bls.gov/oes/>.

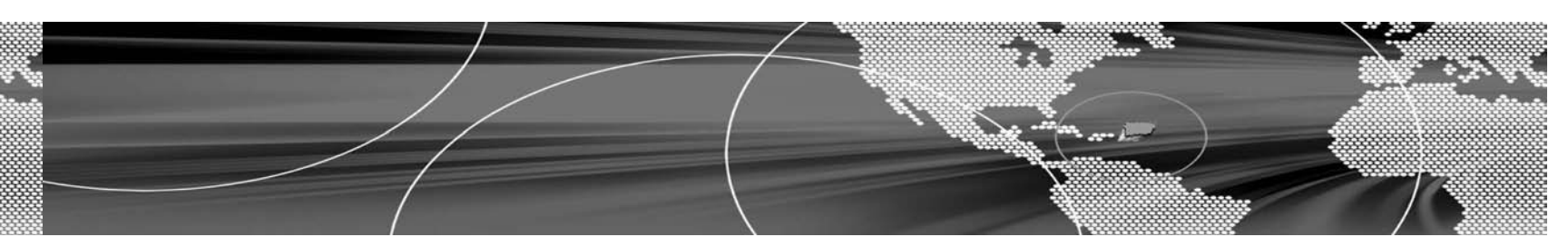
Wage Comparison between PR and the U.S.

Description	US Mean Hourly Wage	PR Mean Hourly Wage	Diff.	%
All Occupations	\$21.35	\$12.92	8.43	39.5%
Management Occupations	\$50.69	\$32.57	18.12	35.7%
Chief Executives	\$83.34	\$55.21	28.13	33.8%
General and operations Managers	\$54.38	\$41.79	12.59	23.2%
Computer & Information Systems managers	\$59.27	\$36.77	22.50	38.0%
Architectural and Engineering Managers	\$60.53	\$46.57	13.96	23.1%
Business & Financial Operations Occupations	\$32.54	\$17.51	15.03	46.2%
Logisticians	\$35.34	\$23.99	11.35	32.1%
Accountants & Auditors	\$33.15	\$17.43	15.72	47.4%
Financial Analysts	\$41.36	\$23.95	17.41	42.1%
Computer & Mathematical Sciences Occupations	\$37.13	\$19.88	17.25	46.5%
Computer Programmers	\$36.01	\$20.33	15.68	43.5%
Software Developers, Applications	\$43.47	\$24.67	18.80	43.2%
Computer Systems Analysts	\$39.06	\$23.74	15.32	39.2%
Architecture & Engineering Occupations	\$36.32	\$24.25	12.07	33.2%
Chemical Engineers	\$45.48	\$30.14	15.34	33.7%
Civil Engineers	\$39.56	\$29.42	10.14	25.6%
Computer Hardware Engineers	\$48.85	\$28.78	20.07	41.1%
Industrial Engineers	\$37.72	\$29.97	7.75	20.5%
Mechanical Engineering Technicians	\$24.74	\$19.35	5.39	21.8%
Life, Physical & Social Sciences Occupations	\$31.92	\$20.10	11.82	37.0%
Microbiologists	\$34.63	\$20.89	13.74	39.7%
Chemists	\$35.21	\$23.90	11.31	32.1%
Chemical Technicians	\$21.25	\$17.69	3.56	16.8%
Office & Administrative Support Occupations	\$16.09	\$11.20	4.89	30.4%
Payroll and Timekeeping Clerks	\$17.82	\$11.71	6.11	34.3%
Cargo & Freight Agents	\$18.76	\$10.73	8.03	42.8%
Shipping, Receiving & Traffic Clerks	\$14.46	\$9.91	4.55	31.5%
Executive Secretaries & Admin. Assistants	\$22.05	\$13.84	8.21	37.2%
Computer Operators	\$18.43	\$10.62	7.81	42.4%
Office Clerks, General	\$13.58	\$9.89	3.69	27.2%



Description	US Mean Hourly Wage	PR Mean Hourly Wage	Diff.	%
Production Occupations	\$16.24	\$10.75	5.49	33.8%
Structural Metal Fabricators and Fitters	\$17.26	\$9.59	7.67	44.4%
Team Assemblers	\$14.05	\$9.25	4.80	34.2%
Multiple Machine Setters, Tenders, Operators	\$15.99	\$9.06	6.93	43.3%
Tool & Die Makers	\$23.42	\$12.27	11.15	47.6%
Chemical Plant & System Operators	\$26.30	\$17.54	8.76	33.3%
Helpers	\$11.66	\$9.25	2.41	20.7%
Production Workers, All Other	\$14.89	\$11.67	3.22	21.6%
Transportation & Material Moving Occupations	\$15.70	\$9.93	5.77	36.8%
Bus Drivers, Transit and Intercity	\$17.82	\$12.52	5.30	29.7%
Heavy & Tractor-Trailer Truck Drivers	\$18.97	\$8.92	10.05	53.0%
Packers & Packagers	\$10.63	\$8.06	2.57	24.2%
Transportation Workers, All Other	\$17.31	\$12.75	4.56	26.3%
Tank Car, Truck, and Ship Loaders	\$21.40	\$10.69	10.71	50.0%

Source: Bureau of Labor Statistics, Occupational Employment Statistics Survey, May 2010.



2. The Puerto Rico Department of Labor and Human Resources ⁸⁵

The Puerto Rico Department of Labor and Human Resources (DLHR) is the primary government agency charged with establishing and implementing labor and employment law on the island. In addition, the DLHR plays a key role in implementing, developing, and coordinating public policy and programs geared towards developing and training the human resources required for the labor market. Moreover, the Secretary of Labor has the duty to investigate every complaint alleging the violation of any labor-protecting laws.

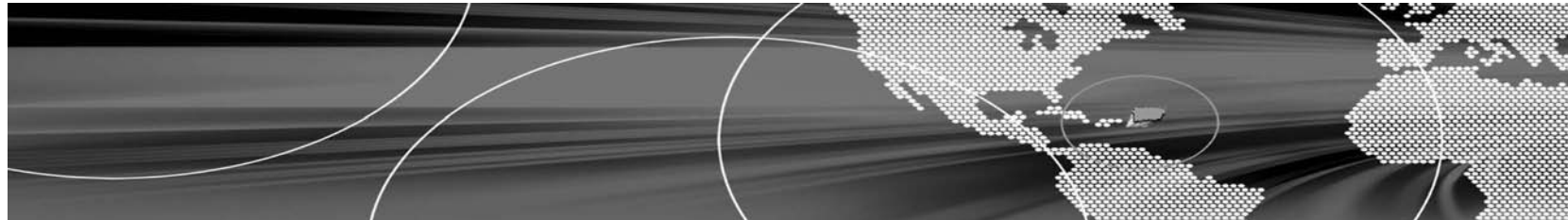
3. Immigration Laws ⁸⁶

As in all U.S. jurisdictions, immigration and work visas in Puerto Rico are governed by U.S. federal law and administered by the United States Department of Homeland Security's Citizenship and Immigration Services. A range of permanent and temporary status options is available to certain foreign workers.⁸⁷

Foreign nationals who obtain a Green Card become permanent U.S. residents and are permitted to live and work in

Permanent Worker Visa Preference Categories		
Preferences	General Description	Labor Certification Required?
EB-1	<i>Reserved for persons of extraordinary ability in the sciences, arts, education, business, or athletics; outstanding professors or researchers; and multinational executives and managers.</i>	No
EB-2	<i>Reserved for persons who are members of the professions holding advanced degrees or for persons with exceptional ability in the arts, sciences, or business.</i>	<i>Yes, unless the applicant can obtain a national interest waiver</i>
EB-3	<i>Reserved for professionals, skilled workers, and other workers.</i>	Yes
EB-4	<i>Reserved for special immigrants, which include certain religious workers, employees of U.S. foreign service posts, retired employees of international organizations, alien minors who are wards of courts in the United States, and other classes of aliens.</i>	No
EB-5	<i>Reserved for business investors who invest \$1 million or \$500,000 (if the investment is made in a targeted employment area) in a new commercial enterprise that employs at least 10 full-time U.S. workers.</i>	No

⁸⁶ 8 U.S.C.A. §1101-1537.
⁸⁷ For more detailed information, see the United States Department of Homeland Security's Citizenship and Immigration Services webpage at <http://www.uscis.gov/portal/site/uscis>.



the U.S. indefinitely. Aside from permanent residents, U.S. law permits some foreign nationals to work in the U.S. indefinitely. Here is a list of permanent work options for non-immigrant foreign nationals:

Federal law also permits certain foreign nationals to study, work, or train in the U.S. on a temporary basis. Here is a list of temporary educational and work options for non-immigrant foreign nationals:

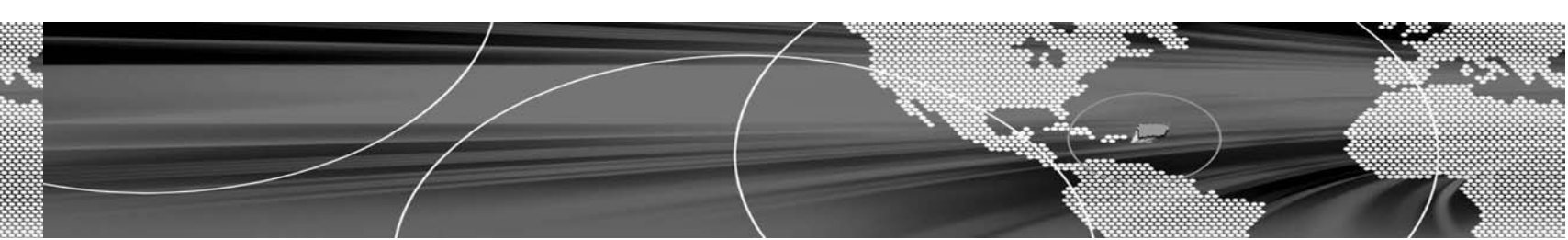
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Temporary (Nonimmigrant) Worker Classification

Nonimmigrant Classification for Temporary Workers	Description	Nonimmigrant Classification for Dependant Spouse & Children of Temporary Workers
<i>E-1</i>	<i>Treaty traders and qualified employees</i>	<i>E-1</i>
<i>E-2</i>	<i>Treaty investors and qualified employees</i>	<i>E-2</i>
<i>E-3</i>	<i>Certain “specialty occupation” professionals from Australia</i>	<i>E-3</i>
<i>H-1B</i>	<i>Workers in a specialty occupation and the following sub-classifications:</i> <ul style="list-style-type: none"> • <i>H-1B1 - Free Trade Agreement workers in a specialty occupation from Chile and Singapore</i> • <i>H-1B2 - Specialty occupations related to Dept of Defense Cooperative Research and Development projects or Co-production projects</i> • <i>H-1B3 - Fashion models of distinguished merit and ability</i> 	<i>H-4</i>
<i>H-2A</i>	<i>Temporary or seasonal agricultural workers</i>	<i>H-4</i>
<i>H-2B</i>	<i>Temporary non-agricultural workers</i>	<i>H-4</i>
<i>H-3</i>	<i>Trainees other than medical or academic. This classification also applies to practical training in the education of handicapped children</i>	<i>H-4</i>
<i>I</i>	<i>Representatives of foreign press, radio, film or other foreign media</i>	<i>I</i>
<i>L-1A</i>	<i>Intracompany transferees in managerial or executive positions</i>	<i>L-2</i>

⁸⁸ See <http://www.uscis.gov/portal/site/uscis/menuitem.eb1d4c2a3e5b9ac89243c6a743f6d1a/?vgnnextoid=13ad2f8b69583210vgnVCM10000082ca60aRCRD&vgnnextchannel=13ad2f8b69583210vgnVCM10000082ca60aRCRD>. Only a few nonimmigrant classifications allow foreign nationals to obtain permission to work in the U.S. without an employer having first filed a petition on your behalf, including the nonimmigrant E-1, E-2, E-3 and TN classifications, as well as, in certain instances, the F-1 and M-1 student and J-1 exchange visitor classifications.

⁸⁹ L-2 dependent spouses may apply for employment authorization



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Temporary (Nonimmigrant) Worker Classification

L-1B	<i>Intracompany transferees in positions utilizing specialized knowledge</i>	L-2 ⁸⁹
O-1	Persons with extraordinary ability in sciences, arts, education, business, or athletics and motion picture or TV production	O-3
O-2	Persons accompanying solely to assist an O-1 nonimmigrant	O-3
P-1A	Internationally recognized athletes	P-4
P-1B	Internationally recognized entertainers or members of internationally recognized entertainment groups	P-4
P-2	Individual performer or part of a group entering to perform under a reciprocal exchange program	P-4
P-3	Artists or entertainers, either an individual or group, to perform, teach, or coach under a program that is culturally unique	P-4
Q-1	Persons participating in an international cultural exchange program for the purpose of providing practical training, employment, and to share the history, culture, and traditions of the alien's home country	Not Applicable ⁹⁰
R-1	Religious workers	R-2
TN	North American Free Trade Agreement (NAFTA) temporary professionals from Mexico and Canada	TD

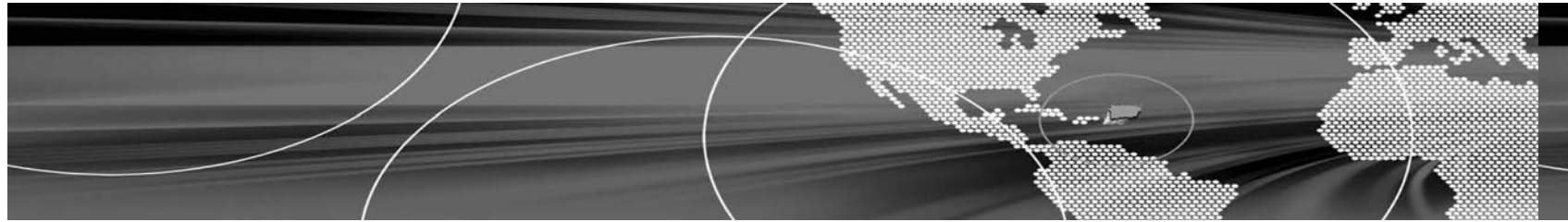
Students (Academic and Vocational (F and M visas)⁹¹

F-1	Academic students
F-2	Spouses and children of F-1
F-3	Canadian or Mexican national academic commuter students
M-1	Vocational students
M-2	Spouses and children of M1

⁹⁰ Though the Immigration and Nationality Act (INA) does not provide a specific nonimmigrant classification for dependents of Q-1 nonimmigrants, this does not preclude the spouse or child of a Q-1 from entering the U.S. in another nonimmigrant classification.

⁹¹ See <http://www.uscis.gov/portal/site/uscis/menuitem.eb1d4c2a3e5b9ac89243c6a7543f6d1a/?vgnnextoid=704e2f8b69583210VgnVCM100000082ca60aRCRD&vgnnextchannel=704e2f8b69583210VgnVCM100000082ca60aRCRD>.

⁹² See <http://www.uscis.gov/portal/site/uscis/menuitem.eb1d4c2a3e5b9ac89243c6a7543f6d1a/?vgnnextoid=704e2f8b69583210VgnVCM100000082ca60aRCRD&vgnnextchannel=704e2f8b69583210VgnVCM100000082ca60aRCRD>.



M-3	Canadian or Mexican national vocational commuter students
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Exchange Visitors (J visas) ⁹²	
J-1	Exchange visitors
J-2	Spouses and children of J-1

Temporary Visitors for Business ⁹³	
B-1	<i>Temporary business visitor to conduct activities of a commercial or professional nature. For example, consult with business associates, negotiate a contract, or attend a business conference</i>
WB	<i>Temporary visitor for Business admitted under Visa Waiver Program</i>
GB	<i>Temporary visitor for Business (limited to Guam)</i>

In many cases, visa processing can take several months. Moreover, visa status is often employer- and position-dependent, so changes affecting the identity of the employer, the nature of the employer’s position, or the employer-employee relationship can alter or invalidate the employee’s residency status. There are potential penalties to both employee and employer for violating visa terms or time limits.

4. Labor and Employment Law

Both federal and local labor and employment laws apply in Puerto Rico. Federal labor laws are administered by the United States Department of Labor.⁹⁴ Federal employment discrimination laws are administered by the U.S. Equal Employment Opportunity Commission.⁹⁵ Puerto Rico’s labor and employment laws are contained in Title 29 of the Puerto Rico Code, which defines the rights and obligations of employers and employees alike.

A. Employment Contracts

Generally, the relationship between employer and employee is contractual, although some special rules apply to certain employment issues. As such, the relationship can be established either by oral or written agreement. Unless otherwise agreed, there is a presumption that employer-employee relationships are for an indefinite period, but employers are permitted to hire employees for specific time periods or based on other defined conditions; such contracts should be in writing. Employers can hire term employees using, for example, temporary employment contracts, probationary employment contracts, or construction employment contracts. They can hire such employees either through a temporary employment agency or directly.

B. Payroll Taxes

Payroll taxes, including applicable income, social security, unemployment, and disability taxes, are subject to withholding. This is discussed in more detail in Chapter 4 of this document.

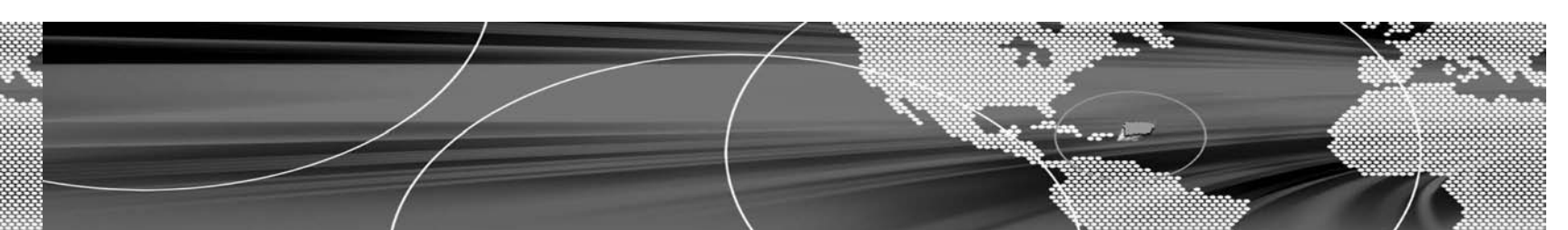
C. Wages and Hours

A number of federal and local wage-and-hour laws apply in Puerto Rico. This section describes some of those laws, but employers are urged to consult the Department of Labor and Human Resources and/ or a labor and employment specialist for specific questions.

(1) Minimum Wage

The federal Fair Labor Standards Act’s minimum wage - \$7.25/hour - applies to businesses

⁹³ See <http://www.uscis.gov/portal/site/uscis/menuitem.eb1d4c2a3e5b9ac89243c6a7543f6d1a/?vgnnextoid=fade2f8b69583210VgnVCM100000082ca60aRCRD&vgnnextchannel=fade2f8b69583210VgnVCM100000082ca60aRCRD>.
⁹⁴ See <http://www.dol.gov/opa/aboutdol/lawsprog.htm>.
⁹⁵ See <http://www.eeoc.gov/laws/statutes/index.cfm>.



operating in Puerto Rico that (1) have employees either (a) engaged in commerce or in the production of goods for commerce or (b) engaged in handling, selling, or otherwise working on goods or materials that have been moved in or produced for commerce by any person and (2) have annual gross volume of sales made or business done of at least \$500,000.⁹⁶

The Puerto Rico minimum wage applies to all businesses to which the federal minimum wage does not apply. The minimum wage for those businesses excluded from the federal minimum wage is the equivalent to seventy percent (70%) of the prevailing federal minimum wage.⁹⁷

(2) Working Hours

For employees covered under the FLSA, normal working hours should be no more than eight hours per day or forty hours per week. Employees who work in excess of normal hours are entitled to time-and-a-half wages.⁹⁸ Employees covered by the FLSA are: any individual engaged in commerce or in the production of goods for commerce⁹⁹, or an individual employed by a public agency¹⁰⁰. Excluded from this Act are individuals employed by an employer engaged in agriculture (if such individual is a member of the employer's immediate family), individuals who volunteer to perform services for a public agency (which includes a State, political subdivision of a State, or an interstate governmental agency), and individuals who volunteer their services for humanitarian purposes.

Employees not covered by the FLSA are covered by Puerto Rico's wage-and-hour laws. Generally, for covered employees, regular working hours should be (1) no more than 8 hours per day, from 8:00 a.m. to 5 p.m., with one hour for lunch, and (2) 40 hours per week. Flexible schedules to advance or delay the beginning of the workday and the period for taking meals are permitted by mutual agreement, but the workday shall not exceed eight hours without being paid overtime.¹⁰¹ Employees who work in excess of regular time are entitled to double pay.¹⁰² Special rules apply to employees working on Sundays and certain holidays.¹⁰³

Act 143 of 2009, known as the Puerto Rico Closing Law, regulates employees working on Sundays and certain holidays in business establishments in Puerto Rico. Base salary on Sundays starts at \$11.50 per hour. In addition, there is an opening restriction from 5:00 a.m. to 11:00 a.m. on such days. However, those business establishments who operate at hotels, airports and touristic places, among others, are not subject to said restrictions. Business establishments with no more than 25 employees, among others, are not subject to the referred restrictions either.¹⁰³

Under Puerto Rico law, an employee includes every employee, workman, day laborer, artisan, laborer, clerk, shop clerk and every person employed for wages, salary, day wages, or any other form of compensation in any occupation, establishment, business, or industry, excepting traveling agents and peddlers. The word "employee" does not include executives¹⁰⁴, administrators¹⁰⁵, professionals¹⁰⁶, or labor union officials or organizers when acting as such.

⁹⁶ The FLSA is codified at 29 U.S.C.A.

⁹⁷ 29 L.P.R.A. § 250a.

⁹⁸ 29 U.S.C.A. § 207.

⁹⁹ "Enterprise engaged in commerce or in the production of goods for commerce" means an enterprise that has employees engaged in commerce or in the production of goods for commerce, or that has employees handling, selling, or otherwise working on goods or materials that have been produced for commerce; and its annual gross volume of sales is not less than \$500,000. Also includes enterprise engaged in the operation of a hospital, institution engaged in the care of the sick, aged, or the mentally ill, a preschool, elementary or secondary school, or an institution of higher education. Any establishment that has as its only employees the owner or any member of the immediate family of the owner will not be considered an enterprise engaged in commerce or in the production of goods for commerce.

¹⁰⁰ Individual employed by a public agency means: any individual employed by the Government of the United States, any individual employed by the United States Postal Services or the Postal Rate Commission, and any individual employed by a State, political subdivision of a State, or an interstate governmental agency.

¹⁰¹ 29 L.P.R.A. §272a.

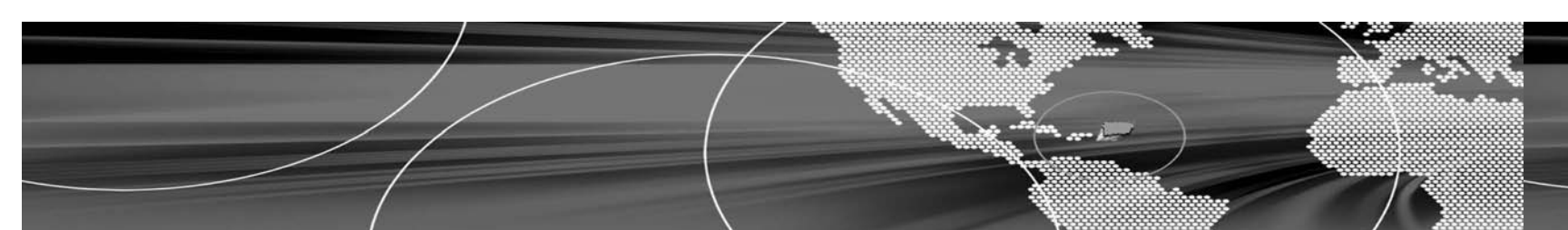
¹⁰² 29 L.P.R.A. §250 - 250j

¹⁰³ Puerto Rico Closing Act, Act No. 143 of 2009

¹⁰⁴ The term "executive" includes every employee that (1) is compensated on a salary or fee basis of \$455 per week or more; (2) has the primary duty of managing the enterprise in which he works or a department or subdivision of that business; (3) usually and regularly manages two or more employees; and (4) has the authority to hire or fire other employees and to suggest the hiring, firing, promotion, or any other change of status of other employees.

¹⁰⁵ The term "administrator" includes every employee that (1) is compensated on a salary or fee basis of \$455 per week or more; (2) has the primary duty of performing office or non-manual work directly related to the management or the business operations of the employer (e.g. budgeting, accounting, auditing, finance, etc.); and (3) has primary duties that include the use of discretion and independent judgment in relation to matters of great importance.

¹⁰⁶ The term "professional" includes every employee that (1) is compensated on a salary or fee basis of \$455 per week or more and (2) has the primary duty of performing work that: (i) requires knowledge of an advanced type in the field of science or learning that is usually acquired by a prolonged course of studying (e.g. law, medicine, engineering, architecture, accounting, etc.), or (ii) that requires invention, imagination, originality or talent in a recognized artistic field.



On the following holidays business establishments that are subject to the above-referred law must remain closed: (1) January 1st; (2) January 6th; (3) Good Friday; (4) Easter Sunday ; (5) Mother's Day; (6) Father's Day; (7) General Elections' Day; (8) Thanksgiving Day; and (9) Christmas Day.

(3) Holidays

The following local and federal holidays are observed in Puerto Rico. When a holiday falls on a Sunday, the holiday usually is observed on the following Monday.

- New Year's Day (Jan 1st)
- Epiphany (Jan 6)
- Hostos' Birthday (2d Monday of January)
- Martin Luther King Day (3d Monday of Jan)*
- Presidents Day (3d Monday of February)*
- Emancipation Day (March 22)*
- Good Friday (March or April)
- Easter Sunday (March or April)
- De Diego's Birthday (3d Monday of April)*
- Memorial Day (4th Monday of May)*
- U.S. Independence Day (July 4)*
- L. Muñoz Rivera Birthday (3d Monday of July)*
- P.R. Constitution Day (4th Monday of July)*
- Jose Barbosa's Birthday (July 27)*
- Labor Day (1st Monday of September)*
- Columbus Day (October 12)*
- Veterans' Day (November 11)*
- Puerto Rico Discovery Day (November 19)*
- Thanksgiving Day (4th Thursday of November)
- Christmas Day (December 25)

*Holidays designated with a * are mandatory only for government employees

D. Working Age

The FLSA permits the employment of persons between the ages sixteen (16) and eighteen (18) only in occupations that the Secretary of Labor does not declare to be hazardous or detrimental to the health of children. Children between the ages of 14 and 16 are permitted to work (1) in occupations other than manufacturing and mining that are not oppressive child labor (i.e., that do not interfere with the child's education, health, or well being); and (2) when the parent or person in place of the parent employs his or her child under 16 in most occupations (excluding mining and manufacturing or other occupations that the Department of Labor prohibits).¹⁰⁷

Where the FLSA does not apply, the age at which people in Puerto Rico can legally work is 14, but the employment of persons between 14 and 18 years of age is subject to certain restrictions. Specifically, employees under 19 years of age should not work more than eight (8) hours in one day, six (6) consecutive days in one week, or for more than forty (40) hours in one week. Moreover, employees under 16 years of age should not start work before 8:00 a.m. or work after 6:00 p.m., and employees between 16 and 18 years of age should not begin before 6:00 a.m. or work after 10:00 p.m.¹⁰⁸

E. Employee Benefits

(1) Vacation and Sick Leave ¹⁰⁹

Hourly employees are entitled to paid vacation and sick leave, generally of 1.25 days and one day per month, respectively. The employee has to work at least one hundred and fifteen (115) hours a month in order to receive such benefits.

(2) Annual Bonus ¹¹⁰

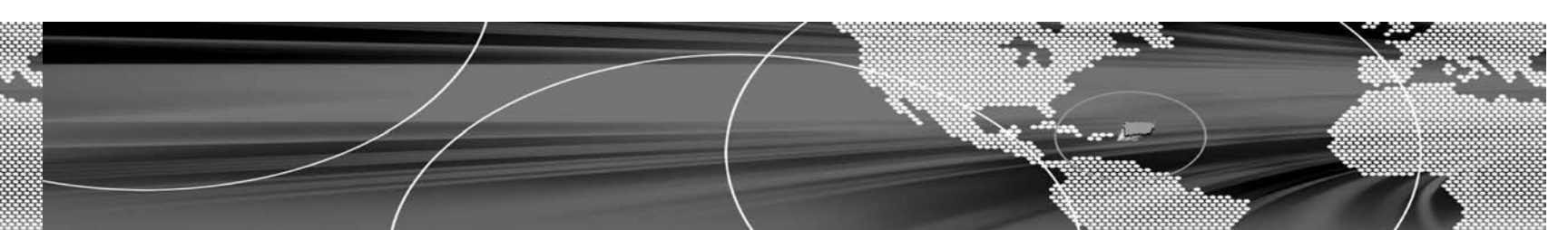
Employers are required to pay a bonus during the period from December 1 to December 15 of each year to each employee who works at least 700 hours during the 12-month period commencing October 1 of each calendar year. For employers with fewer than 15 employees, the mandatory bonus is 3% of the employee's total wages up to \$10,000 (i.e., employees making less than \$10,000 receive a bonus of 3% of their wages or, at the employer's discretion, more; employees making \$10,000 or more receive a bonus of \$300 or, at the employer's discretion, more). For

¹⁰⁷ 29 U.S.C.A. § 203l.

¹⁰⁸ 29 L.P.R.A. § 433.

¹⁰⁹ 29 L.P.R.A. § 250d.

¹¹⁰ 29 L.P.R.A. §§ 501-507.



employers with 15 or more employees, the mandatory bonus is 6% of the employee's total wages up to \$10,000. Certain credits may be available, and each employer's aggregate annual bonus need not exceed 15% of net profit for each year.

(3) Maternity Leave ¹¹¹

Female employees are generally entitled to an eight-week maternity leave with full pay (including for adoption when the adopted child is 5 years of age or less). The employer is required by law to reserve the position. Upon return to work, time is allotted during each full-time working day for breastfeeding.

(4) Jury Duty and Witness Leaves ¹¹²

Employees called for jury duty in any court case are entitled to up to fifteen days of paid leave for their service, and their reinstatement is protected. Employees called as witnesses in criminal cases are entitled to paid leave for the duration of their time spent in court; their reinstatement is also protected. Employers are prohibited from deducting such employees' salary, vacation, or sick leave for time spent as jurors or witnesses in criminal cases.

(5) Workmen's Compensation ¹¹³

All employers must obtain workmen compensation insurance from the State Insurance Fund. This insurance provides compensation to employees for work-related accidents or conditions, including occupational diseases. There are exceptions (e.g., when an employee is injured as a result of attempting to commit a crime, being intoxicated or engaging in reckless behavior). A covered employer is not subject to suits for employment-related accidents. The Compensation System for Work-Related Accidents Act protects the employee's right to reinstatement for 12 months after an accident. ¹¹⁴

(6) Severance Pay ¹¹⁵

An employee hired for an indefinite term who is discharged without just cause is entitled to severance pay. The statute defines just cause for a discharge to include instances when (a) the worker indulges in a pattern of improper or disorderly conduct; (b) the attitude of the employee of not performing his work in an efficient manner or in compliance with the business' standards of quality; (c) the employee repeatedly violates the rules and regulations established for the operation of the establishment; (d) the establishment is ceasing operations; or (e) reductions in employment have been necessitated by a reduction in the business' anticipated volume of production, sales, or profits. The base rate of severance pay is two month's salary plus one week's pay for each year of service. Employees who worked for between 5 and 15 years are entitled to additional severance pay of 3 months' salary plus 2 weeks' salary for each year worked. Finally, employees discharged after 15 years of service are entitled to receive severance pay of 6 months and 3 weeks' salary for each year worked. Employees hired for a probationary period are not covered, provided their contract is in writing and the probationary period does not exceed 3 months. If the employee continues to work after the contract expires, the employee will acquire the rights of an employee as if contracted without a definite term.

(7) Military Leave

a) Uniformed Services Employment and Reemployment Act of 1994 ("USERRA")¹¹⁶ - Federal law that protects veterans and members of the Reserve from discrimination regarding recruitment,

¹¹¹ 29 L.P.R.A. §467-476.

¹¹² 29 L.P.R.A. §193-194b; 34 L.P.R.A. §1735i.

¹¹³ 11 L.P.R.A. §1-42.

¹¹⁴ 11 L.P.R.A. §7.

¹¹⁵ 29 L.P.R.A. §185a-185m.

¹¹⁶ 36 U.S.C. § 4301, et seq.

¹¹⁷ 42 L.P.R.A. § 2082.



retention, promotion, and reemployment. Military leave for veterans under this law cannot exceed five years.

(b) Military Code of Puerto Rico ¹¹⁷- Provides, among other things, up to a thirty (30) days paid leave to government employees.

(8) Sports Leave, Law No. 488 of September 23, 2004

Provides, among other things, up to a thirty (30) days unpaid leave to those employees who qualify for the benefits of such law.

(9) Non-Occupational Disability Law or “S.I.N.O.T.” ¹¹⁸

Provides salary protection (disability insurance) for those workers who suffer a temporary disability due to an illness or accident that is unrelated to their job or to any vehicle accident. Benefits will be payable as long as the person is disabled or up to a maximum of 26 weeks in any 52 weeks period. As under the PR Worker’s Compensation Law, employees under S.I.N.O.T. also have a right to reinstatement.

(10) Social Security for Chauffer’s and Other Employees ¹¹⁹

Provides, among others, temporary disability benefits for employees who are considered chauffeurs under said law.

(11) Automobile Accident Social Protection Act ¹²⁰

Provides, among others, temporary disability benefits for automobile accident victims.

(12) Act No. 180 of July 27, 1998 (Section 7) ¹²¹

Employers who require uniforms at the workplace must provide them to their employees free of charge.

F. Federal Anti-Discrimination in Employment Laws

As a U.S. jurisdiction, Puerto Rico is subject to federal employment laws, including the following:

(1) Title VII ¹²²

Title VII, which generally applies to employers engaged in interstate commerce who have fifteen or more employees, prohibits employers from discriminating based on race, color, religion, sex, or national origin.

(2) Age Discrimination in Employment Act (ADEA) ¹²³

The ADEA, which generally applies to employers engaged in interstate commerce who have twenty or more employees, forbids discrimination based on age in employment decisions.

(3) Americans with Disabilities Act (ADA) ¹²⁴

The ADA, which generally applies to employers engaged in interstate commerce who have fifteen or more employees, makes it unlawful for an employer to discriminate against a qualified individual with a disability. A qualified individual with a disability means an individual with a disability who, with or without reasonable accommodation, can perform the essential functions

¹¹⁸ 11 L.P.R.A. § 201, et seq.

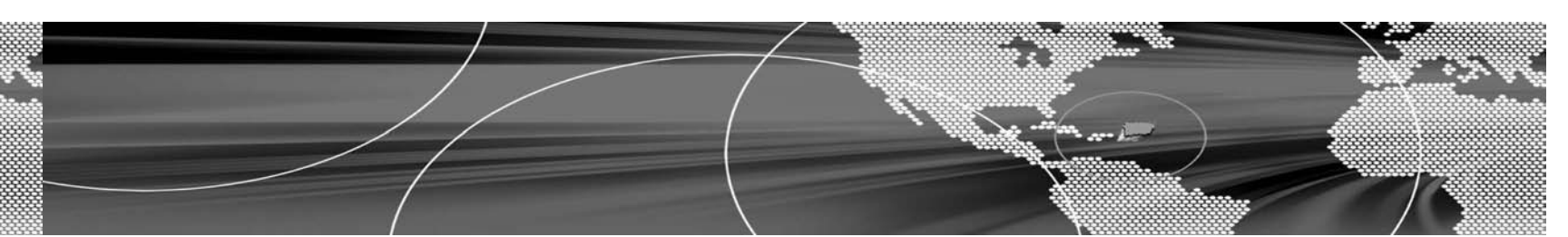
¹¹⁹ 29 L.P.R.A. § 681, et seq.

¹²⁰ 9 L.P.R.A. § 2051, et seq.

¹²¹ 29 U.S.C. § 206 (d).

¹²² 42 U.S.C.A. § 2000e-2000e-17.

¹²³ 29 U.S.C.A. § 621-634.



of the employment position that such individual holds or desires. The ADA also requires employers to reasonably accommodate qualified individuals in the workplace; the employer must work with the employee to determine whether and what accommodation is reasonable.

4) Equal Pay Act (EPA) of 1963 ¹²⁵

Protects men and women who perform substantially equal work in the same place of business from sex-based wage discrimination.

5) Title II of the Genetic Information Nondiscrimination Act of 2008 (GINA) ¹²⁶

Prohibits employment discrimination based on genetic information about an applicant, employee, or former employee.

G. Additional Federal Employment Laws

(1) Family and Medical Leave Act (FMLA) ¹²⁷

The FMLA, which generally applies to employers engaged in interstate commerce who have fifty or more employees, requires that eligible employees be allowed to take up to twelve weeks of unpaid leave per year for the birth or adoption of a child or the serious health condition of the employee or the spouse, parent, or child of the employee.

(2) Occupational Safety and Health Act (OSHA) ¹²⁸

OSHA, which applies to all employers who are engaged in an industry affecting commerce, establishes health and safety regulations in the workplace.

(3) Employee Polygraph Protection Act (EPPA) ¹²⁹

The EPPA, which applies to most employers engaged in interstate commerce, limits employers' ability to require polygraph testing of employees. Certain employers are exempt, including governmental employers, FBI contractors, and those employers whose primary business is running a security service or manufacturing, distributing, or dispensing a controlled substance.

(4) National Labor Relations Act ¹³⁰ **and Labor Management Reporting and Disclosure Act** ¹³¹

These statutes, which apply, with narrow exceptions, to all employers engaged in interstate commerce regardless of the number of employees, govern labor-management relations.

(5) Worker Adjustment Retraining and Notification Act (WARN) ¹³²

The WARN Act, which generally applies to most businesses with 100 or more full-time employees, requires employers to give sixty days notice to their employees of plant closings or mass layoffs.

(6) Immigration Reform and Control Act (IRCA)

The IRCA requires employers to verify immigration status and employment authorization for all employees.

(7) Employee Retirement Income Security Act of 1974 (ERISA) ¹³³

ERISA governs most types of employee benefit plans, including retirement plans, life and disability insurance, medical reimbursement plans, health care plans, and severance policies. ERISA requires certain reporting and disclosure, imposes fiduciary duties, and, for most types of retirement plans, establishes coverage, vesting, and funding requirements.

¹²⁴ 42 U.S.C.A. §§ 12111-12117.

¹²⁵ 29 U.S.C.A. § 206(d).

¹²⁷ 29 U.S.C.A. §§ 2611-2619.

¹²⁸ 29 U.S.C.A. §§651-700.

¹²⁹ 29 U.S.C.A. §§ 2001-2009

¹³⁰ 29 U.S.C.A. §§ 151-169.

¹³¹ 29 U.S.C.A. §§ 401-504.

¹³² 29 U.S.C.A. §§ 2101-2109.



(8) Consolidated Omnibus Budget Reconciliation Act (COBRA)

COBRA requires employers to provide certain terminated employees with an option to continue to obtain health insurance under the employer's plans (at the terminated employee's cost), typically for up to eighteen months following termination.

H. Puerto Rico Discrimination Laws

(1) Law No. 100 of June 30, 1959 ¹³⁴

Puerto Rico's general anti-discrimination statute bars employers from discriminating against employees and prospective employees on the basis of age, race, color, gender, social or national origin, social condition, political affiliation, religious belief, or status as a victim of domestic violence.

(2) Law No. 69 of July 6, 1985 ¹³⁵

Prohibits employers from discriminating against employees and prospective employees on the basis of sex (gender).

(3) Law No.17 of April 22, 1988 ¹³⁶

Prohibits sexual harassment in the workplace.

(4) Law No. 3 of March 13, 1942 ¹³⁷

Prohibits discrimination on the basis of pregnancy in the workplace.

(5) Law No. 44 of July 2, 1985 ¹³⁸

Prohibits disability discrimination in the workplace.

(6) Law No. 115 of December 20, 1991 ¹³⁹

Puerto Rico's general "whistle-blower" protection act. Bars employers from retaliating against employees who take part in protected activity.

I. Additional Puerto Rico Employment Laws

(1) Law 217 of September 6, 2006

Requires employers to establish and implement a protocol to handle domestic violence situations in the workplace.

(2) Administration for Child Support Enforcement ("ASUME") ¹⁴⁰

Imposes various responsibilities upon employers in Puerto Rico which include, among others, the submission of a registry of new employees by employers to the Administration for Child Support Enforcement and several other requirements related to the retention of earnings of employees who owe child support payments.

¹³³ 29 U.S.C.A. §§ 1001-1461.

¹³⁴ 29 L.P.R.A. § 146, et seq.

¹³⁵ 29 L.P.R.A. § 1321, et seq.

¹³⁶ 29 L.P.R.A. § 155, et seq.

¹³⁷ 29 L.P.R.A. § 467, et seq.

¹³⁸ 1 L.P.R.A. § 501, et seq.

¹³⁹ 29 L.P.R.A. § 194, et seq.

¹⁴⁰ 8 L.P.R.A. § 501, et seq.



Chapter 6: Real Estate, Construction and Permits

1. Introduction

Investors interested in obtaining property, either to develop or to operate a business, should understand the basics of Puerto Rico real estate, including the processes related to land use and construction. It is also important to remember that various government agencies maintain a portfolio of properties for a variety of uses and that certain government financing options exist.

2. Puerto Rico Real Estate Law

A. Title to Property

(1) The Civil Code

Puerto Rico's property law is governed by the Puerto Rico Civil Code. Under the Code, all persons and juridical entities, whether Puerto Rican or not, may hold title to real estate in Puerto Rico. The Puerto Rico Constitution, however, prohibits juridical entities like corporations from engaging in the business of buying and selling real property as well as owning or having title to real property unless it is reasonably necessary to fulfill its purpose and limits the land holdings of agricultural enterprises to 500 acres.¹⁴¹

(2) Joint Ownership¹⁴²

The Puerto Rico Civil Code does not recognize the common law concepts of common ownership, such as joint tenancy or tenancy by the entirety. Instead, the Civil Code requires that joint ownership be governed by contract, with all owners' rights and obligations set forth in writing. Moreover, joint owners always retain the right to exit from common ownership, and they can generally force a division of the jointly owned property.¹⁴³

(3) Condominiums¹⁴⁴ and Time-Shares¹⁴⁵

Puerto Rico has separate legislation governing condominiums and time shares. The law governing condominium properties applies to apartments and common elements whose owner(s) expressly states, in a public deed, the desire to submit the property to the horizontal property regime and records this deed in the Registry of Property. The condominium law can apply to real estate located on land whose title belongs to someone else if the title owner of the land grants the lease, usufruct, or surface rights perpetually to the builder or the condominium tenant. Lastly, the title that sets forth the horizontal property regime has to state clearly and precisely the purpose and use of all areas within the property—including the apartments and common areas—because, within in a single condominium, portions of the property can be dedicated to commercial use while others are dedicated to residential use. Once the property is submitted to the horizontal property regime, the apartments can be owned and possessed independently of the rest of the condominium property, with each apartment owner having an exclusive right over his property and a share, with other co-owners, in the common elements of the property.

B. The Public Registry of Property¹⁴⁶

The Registry of Property is an archive that contains all recorded documents and/or contracts pertaining to the ownership and other rights over real property in Puerto Rico. The inscription of a property's history in the Registry of Property is a safeguard for those interested in purchasing, leasing, or acquiring any rights over a particular property. Anyone interested in purchasing a property in Puerto Rico should first obtain a title study from a reputable title search entity or party stating the status of such property's inscription in the Registry. This information will provide the purchaser with the title holder's name, the property description, and any liens and

¹⁴¹ P.R. Const. Art. VI § 14.

¹⁴² 31 L.P.R.A. §§ 1271-1285.

¹⁴³ There are two exceptions to this rule. First, a contract governing joint ownership of real property can stipulate that the property must remain undivided for up to ten years (a period that can be extended by mutual agreement). 31 L.P.R.A. § 1279. Second, an attempt to divide a jointly owned property can be blocked where the division would make the property unsuitable for its anticipated use. 31 L.P.R.A. § 1280.

¹⁴⁴ 31 L.P.R.A. §§ 1291-1294e.

¹⁴⁵ 31 L.P.R.A. §§ 1295-1303.

¹⁴⁶ 31 L.P.R.A. §§ 1871-1875.

encumbrances the property may have. Except in certain exceptional cases, anyone who purchases a property pursuant to the Registry will be protected from third parties alleging rights encumbering the property.

C. Buying and Selling Real Property

The sale of real property is governed by the Puerto Rico Civil and Commercial Codes. Under the Civil Code, a purchase and sale agreement is perfected when the buyer and seller agree on both the thing being sold and the price; neither payment nor delivery is required. As a result, bills of sale are not typically used for real property transactions, and a statement signed by the parties attesting to the delivery of the property and receipt of the purchase amount suffices to evidence the transaction.

With respect to real property, however, the sale must also be evidenced by a public deed executed before a notary public and recorded in the Property Registry.¹⁴⁷

As a general rule, the Civil Code imposes upon a property seller a warranty to the buyer regarding the legal and peaceful possession of the thing sold and that no hidden faults or defects exist. Nonetheless, it is typical for purchasers of real property to obtain title insurance.

D. Leasing Real Property

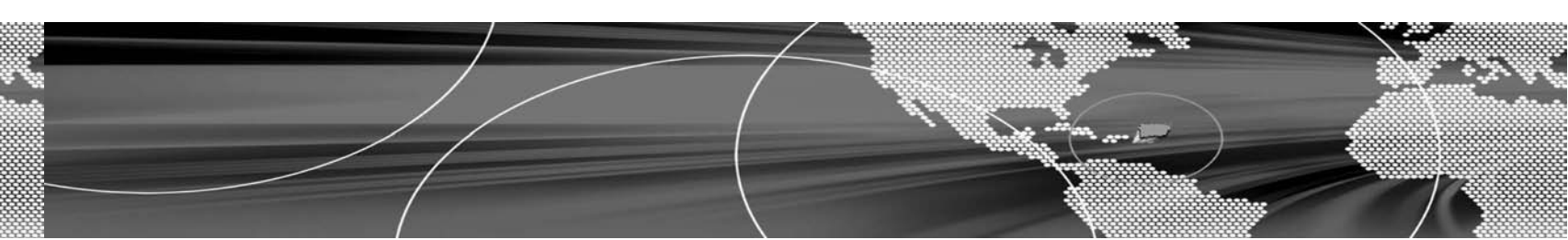
Any person or entity can lease real estate in Puerto Rico via a private contract. The Puerto Rico Civil Code states that any lease agreement may be terminated if the title holder sells the leased property unless the parties have executed a long-term lease (with terms of 6 years or more) via a public deed (which automatically allows the lessee to record the lease in the Property Registry) or the parties have mutually agreed, pursuant to a public deed, that the lease may be recorded in the Property Registry.

3. Zoning

The use of land in Puerto Rico is subject to qualification district restrictions, and a property's qualification zone designation determines the permissible uses for the property. The Puerto Rico Planning Board has jurisdiction over District Qualifications in Puerto Rico and establishes the parameters, guidelines, and rules on how and where specific social and economic activities will be permitted. Puerto Rico has Qualification Maps that show the various zoning

DISTRICT	NAME	DISTRICT	NAME
UR	Developable Land	CT-I	Commercial Tourist-Intermediate
R-I	Intermediate Residential	AD	Developed Areas
R-A	High Density Residential	A-P	Agricultural-Productive
R-ZH	Residential-Historic Zone	A-G	Agricultural-General
RC-M	Residential Commercial-Mixed Use	R-G	Rural-General
C-L	Light Commercial District	B-Q	Forests
C-I	Intermediate Commercial	CR	Conservation of Resources
C-C	Commercial Center/ Mall	CR-C	Conservation of Resources-Streams
RC-E	Recreational Commercial-Extensive	CR-A	Conservation of Resources-Archaeological
I-L	Industrial-Light	SH	Historic Sites
I-P	Industrial-Heavy	DS	Selective Development
DT-G	Dotational General	DTS	Selective Tourist Development
DT-P	Dotational-Park	PP	Public Beaches
M	To be improved	PR	Preservation of Resources

¹⁴⁷ Public deeds should be utilized not only for real property sales, but also for mortgages, trusts, and long-term leases (with terms of 6 years or more). Moreover, long-term leases that are executed in a public deed can be recorded in the Registry. This is important; leases not recorded in the Registry are invalidated if the leased property is purchased by a third party. Public deeds for any type of real estate transaction must be prepared by a notary public who in Puerto Rico, can only be a lawyer who passes a notary licensing exam. Deeds executed outside of Puerto Rico are valid in Puerto Rico if (1) they meet the same requirements as Puerto Rico deeds or (2) they meet the requirements for deeds established by the law of the jurisdiction where the deed is executed and the document is the "protocolized," or converted to Puerto Rico deeds.



districts around the island.

The following are Puerto Rico's zoning designations:

A. Site Consultations

Anyone seeking to develop a real estate project should request a site consultation from the Permit Management Office. This is the procedure by which the Adjudicatory Board of the Permit Management Office can make a final determination of a discretionary issue concerning:

- a proposed land use that is not typically permissible under applicable rules that apply to the qualified area where the project is located;
- projects or activities that are permitted in the qualification district for which a higher density or intensity than allowed is proposed;
- projects in which the proposed development is for a lot with a capacity larger or smaller than that established;
- projects that are regional in character;
- proposed land uses that owing to their nature or intensity require a special or particular location in order to address special situations;
- proposed land uses in areas that have not yet been zoned within Planning Regulations; or
- any public improvements not registered in the Four Year Investment Program (PICA, by its Spanish acronym), except those that are exempt from the government's jurisdiction and other transactions by special resolution of the Planning Board.

These applications can be submitted online through the Integrated Permit System (SIP, by its Spanish acronym) website¹⁴⁸. Generally, digital copies of the following documents must be provided to request a site consultation:

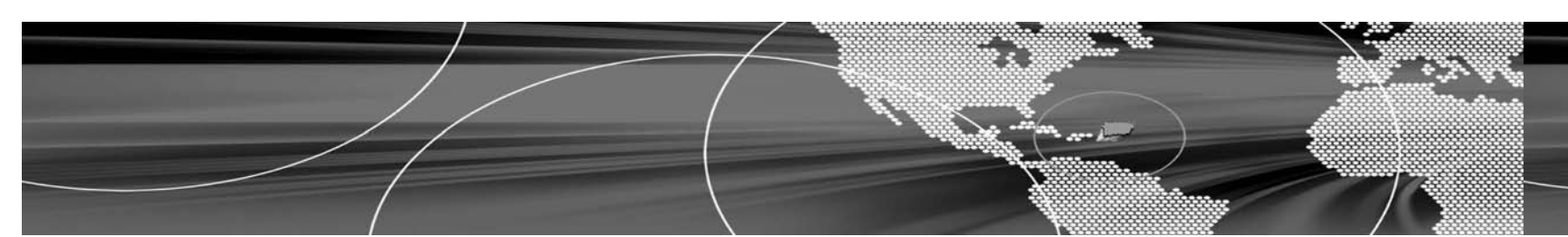
(1) Original Explanatory Memorandum. This document provides a general description of (1) the land, including its location, size, current zoning and uses, and available infrastructure (water, sewer, electricity, access roads) and (2) the proposed project, including the number and size of the tracts of land to be created, and the characteristics of any buildings or structures contemplated. All requested exemptions should be justified and the benefits of the proposed project to the community identified.

(2) Evidence of Ownership. Where the property is in probate, a copy of an Heirs Declaration must be filed as well. To demonstrate ownership, any of the following documents—notarized, certified, and signed—may be submitted: a sales deed; property registry certification; certification by the director of a government agency or municipal mayor describing the land and indicating that the proponents are the owners thereof; or an option contract or rental agreement indicating that the proponents will obtain the permits required to develop the property.

(3) Authorization Letter from the Land Owners. The authorization letter is valid for ninety (90) days after signed and must include the owner's postal address. Where the property is in probate, the letter must be signed by all heirs, and the heirs must have a legally authorized representative. In case the land is owned by a corporation, a corporate resolution authorizing the site consultation must be submitted.

(4) Evidence of Environmental Assessment (EA) and any applicable prior Agreements. The Consultation must include evidence that a request for an environmental compliance assessment has been submitted, as well as evidence showing prior approval of the previous division of lots or a property registry certification showing the prior subdivision of the original lot, if applicable. For any such request managed through the Permit Management Office system, the corresponding case number will be considered sufficient evidence. However, a digital copy of these requests and/or agreements must be submitted for all cases processed through other means.

¹⁴⁸ www.sip.pr.gov



(5) Plans of the Land to be Developed in scale of 1:2,000 to 1:10,000, specifying the scale used, lot size, topography (indicating water streams, natural drains, swamps and previous flood levels), structures/buildings, businesses, roads, existing easements, etc. The full names and professional license numbers of all engineers, architects, and draftsmen, among others, that participated in the preparation of the plans must be included.

(6) Graphic Plans of the Proposed Project in 1:2,000 Scale. The proponent must provide plans showing the project's access to a public road, as well as, a table indicating the existent and proposed number of land lot subdivisions, land lots areas, and construction areas. The number of units will depend on the type of project that is being constructed. For example, for residential projects the number of units is determined by the amount of one-family residences, and a commercial project the number of units will be calculated based on footage of construction. The plan must also show all properties adjoining the parcel, their qualified zone and their owners' information. Finally, the plans should show the full names and professional license numbers of all engineers, architects, plan drawers, and other professionals that participated in preparing the plans.

(7) Polygon. The proponent must provide a digital map, in DXF format, that includes an area forming a closed geometric figure (closed polygon).

(8) Economic Feasibility Study. For commercial projects that include a sales department, the proponent must provide an economic feasibility study.

(9) Recommendations from the Municipality, and any Relevant Federal Agency. For proposed residential projects of social interest (i.e., low-income housing), the proponent must provide a letter from one or more relevant agencies. The federal authority will typically be the Department of Housing and Urban Development. Depending on the type of social interest that the project is intended to address, the petitioner must file a notice to the respective agency.

All documents must be submitted in PDF format. All project plans must be submitted in DWFX format, with the digital signature of the professional who certifies them. For additional information, visit the Integrated Permit System (SIP, by its Spanish acronym) website: www.sip.pr.gov, or call 1-855-PERMISO.

B. Petition for an Amendment to a Qualification Map

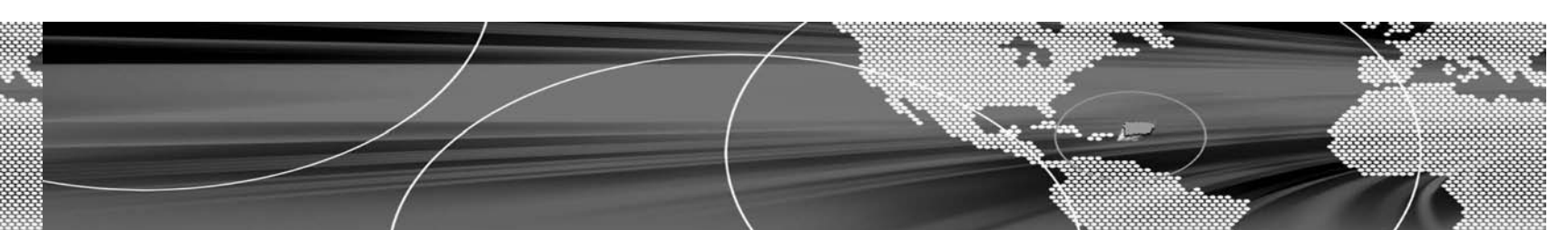
When the proposed use is allowed in the property's qualification district, there is obviously no need for a requalification process. But property can be awarded a different qualification to accommodate new uses. Although the Planning Board is the agency responsible for preparing and adopting Puerto Rico's Qualification Maps, the Permit Management Office's Adjudicatory Board is authorized to consider changes to the qualification district of any given sector or piece of land by request of an interested party. The Joint Regulation for the Evaluation and Issue of Permits Regarding Land Development and Use (Joint Permit Regulation) governs requests for amendments to the Planning Board's Qualification Maps. Generally, the following documents must be provided, in digital form, with the petition:

(1) Evidence of Waiver. In cases where the request is presented through the authorization of a waiver, evidence of the waiver must be included. A waiver is required when the requested use does not fall within the minimum or maximum rating for the requested requalification.

(2) Original Explanatory Memorandum. Proponents must submit a signed explanatory memorandum that provides a full and clear description of the neighborhood; location; outstanding features; agricultural, historic, scenic, cultural or natural importance (if any); reasons supporting the qualification amendment; and a justification of how the amendment would benefit the community or neighborhood where the subject property is located.

(3) Evidence of Ownership Notarized, Certified and Signed. The proponent must provide evidence of ownership of the property, such as a notarized, certified, and signed sales deed, property registry certification, or heirs' declaration.

(4) Authorization Letter. The proponent must provide an original authorization letter from the land



owners, which shall be valid for ninety (90) days after being signed and must include the owner's postal address. Where the property is in probate, the letter must be signed by all heirs, who must have a legally authorized representative. Where the land is owned by a corporation, a corporate resolution authorizing the Site Consultation and rezoning request must be submitted. Where the property is owned jointly, the proponent must obtain authorization from all owners.

(5) Sworn Statement. The proponent must provide a sworn statement attesting that the adjoining properties' postal addresses are correct.

(6) Photograph. The proponent must provide a photo of the front of each property to be amended (i.e., where the main property entrance is located).

(7) Polygon. The proponent must provide a digital map, in DXF format, that includes an area forming a closed geometric figure (closed polygon).

(8) Required Postage Payment. The proponent must provide sufficient postage to mail the invitations to the public hearing and to mail a final resolution on the petition to each adjoining property owner and persons involved in the process.

Certain municipalities have achieved the status of Autonomous Municipality under Puerto Rico's Autonomous Municipality Act. These municipalities have and manage their own land use plan (Territorial Plan).¹⁴⁹ In these municipalities, requalification changes must be run through the corresponding municipal government pursuant to its own rules and procedures.

4. Permits

Permits are required to construct buildings and establish businesses in Puerto Rico. Looking to boost economic development and safeguard the environment, the Puerto Rico Permit Process Reform Act of 2009 established the vision for a new permit system by way of the Permit Management Office and a streamlined permitting process.

The Permit Management Office (OGPe, by its Spanish acronym) is the government body responsible for evaluating permit applications and issuing final determinations concerning construction and land use. As mentioned above, certain municipalities have their own land use plan. As with zoning, these municipalities are authorized to handle permitting for projects within their territory. They issue the same permits, but they utilize their own forms and procedures.

OGPe's six specialized divisions – Environmental Compliance, Health and Safety, Infrastructure, Archaeology and Historic Conservation, Land Use and Building/Construction – manage permitting processes that were transferred from over twenty other government agencies. OGPe's Adjudicatory Board considers discretionary issues, prior to permit applications, for projects with proposed variations and exceptions to the qualification district standards. The ensuing permit process is managed expeditiously, particularly for applications submitted by a licensed engineer or architect who certifies the project. This "certificate" approach requires compliance with submission procedures.

OGPe's services are available online and can be completed remotely. The following requirements must be submitted in digital format. If prior permitting phases are submitted through OGPe's system, the corresponding case number will be considered sufficient evidence of submission and completion of said phases; otherwise, a digital copy of these submissions or final determinations must be submitted along with the present application.

A. Documents required for a Pre-Application Consultation¹⁵⁰

- number of land tax identification number ("cadastre"), if the inquiry is about a specific property;
- explanatory memorandum with the project concept;
- any available documentation detailing said concept will be of use in order for OGPe Division Managers to

¹⁴⁹ Aguadilla, Bayamon, Cabo Rojo, Caguas, Cidra, Guaynabo, Humacao, Ponce and San Juan are Autonomous Municipalities that have their own land use plans.

¹⁵⁰ A Pre-Application Consultation is essentially an optional request for guidance from OGPe, which OGPe will reply with detailed, step-by-step instructions for the requesting party.



respond with specific and comprehensive feedback; and,

- a base tariff is charged for OGPe's response, and an additional fee is added to include a meeting with one or more of OGPe's Division Managers (Administrative Order OGPe-2010-3 of November 30, 2010).

B. Documents Required for an Environmental Assessment

- evidence of ownership or lease. For leased property, the lease must be accompanied by an authorization from the owner to establish the requested use;
- number of land tax identification number ("cadastre");
- explanatory memorandum with a detailed description of the intended action, location, purpose and need;
- appendices of analysis or highly specialized information to scientific findings, as required.
- schematic and conceptual drawings of the proposed action, including required details such as location of wells;
- detailed inventory of the flora and fauna in the site;
- description of the types and characteristics of soils and geological formations in the project area and the adjacent properties;
- document explaining the relationship between the existing natural and artificial systems in the area of the project and the adjacent properties;
- explanatory document of the existing and proposed infrastructure, including details of their use;
- certification that the proposed action should not cause any significant environmental impact and a narrative analysis justifying this statement; and,
- payment (Administrative Order OGPe-2010-3 of November 30, 2010).

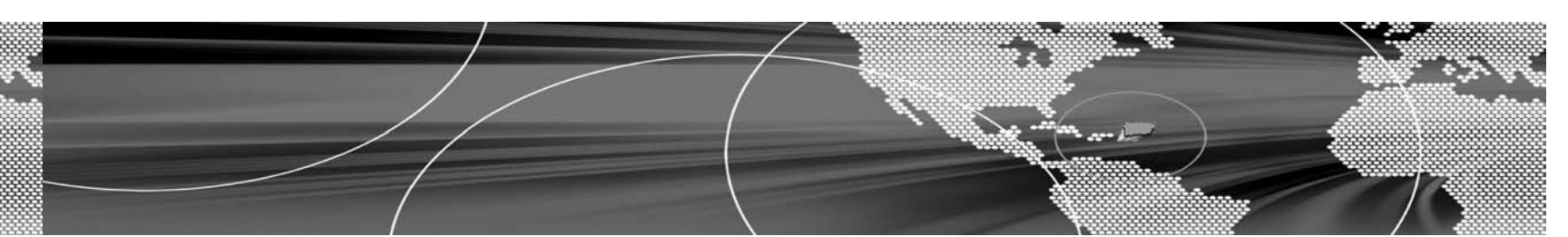
C. Documents Required for Recommendations from OGPe Permit Divisions¹⁵¹

- evidence of ownership or lease. For leased property, the lease must be accompanied by an authorization from the owner to establish the requested use;
- number of land tax identification number ("cadastre");
- explanatory memorandum;
- project plans detailing electric, mechanic and telecommunication systems, as well as any other project component that may impact or require public infrastructure systems;
- other documentation may be required depending on the type of Recommendation requested; and,
- payment varies depending on how many units are requested Recommendation (Administrative Order OGPe-2010-3 of November 30, 2010).

D. Documents Required for a Conventional Use Permit (applies to existing structures)

- evidence of ownership or lease. For leased property, the lease must be accompanied by an authorization from the owner to establish the requested use;
- number of land tax identification number ("cadastre");
- explanatory memorandum;
- evidence of the environmental compliance determination for the applicable environmental document or a categorical exclusion;

¹⁵¹ All external agency "endorsements" for construction and land use are managed through Recommendations request at OGPe.

- 
- evidence of request submission for Fire Prevention and Environmental Health Certifications. Both of these Certifications can be submitted and acquired through OGPe, when alongside a Use Permit request; and,
 - payment will vary per type of use (Administrative Order OGPe-2010-3 of November 30, 2010).

E. Documents Required for a Certificate Use Permit (applies to structures that have been built using a Certificate Building Permit)

- latest Inspection Certification for building works, in stages;
- evidence of final positive recommendation from OGPe Health and Safety Division, and any other applicable Division; and,
- payment will vary per type of use (Administrative Order OGPe-2010-3 of November 30, 2010).

F. Documents Required for a Green Project Pre-Qualification

- evidence of ownership or lease. For leased property, the lease must be accompanied by an authorization from the owner to establish the proposed action;
- number of land tax identification number (“cadastre”);
- explanatory memorandum describing project concept; and,
- certified list of the Green Guide Parameters the project will comply with.

G. Documents Required for a Building Permit for Projects under \$ 6,000.00

- evidence of ownership or lease. For leased property, the lease must be accompanied by an authorization from the owner to establish the requested use;
- number of land tax identification number (“cadastre”) (if the inquiry is about a specific property);
- evidence that the environmental assessment has been submitted.
- project drawings;
- estimated construction costs;
- evidence that the professional who made the plans is an active member of the College of Engineers and Surveyors of Puerto Rico and/or the College of Architects and Landscape Architects of Puerto Rico; and,
- stamps from the College of Engineers and Surveyors of Puerto Rico and/or College of Architects and Landscape Architects of Puerto Rico in the amount of one dollar (\$ 1.00) per thousand dollars (\$ 1,000.00) of estimated costs. In addition, the developer must pay thirty-five cents (\$0.35) and five dollars (\$ 5.00) per thousand dollars (\$ 1,000.00) of estimated costs, as base charge and submittal charges respectively, under Administrative Order OGPe-2010-3 of November 30, 2010.

H. Documents Required for the Installation of Signs or Advertisements

- evidence of ownership or lease. For leased property, the lease must be accompanied by an authorization from the owner to establish the requested use;
- number of land tax identification number (“cadastre”);
- letterer License Copy;
- evidence of Use Permit; and,
- payment (Administrative Order OGPe-2010-3 of November 30, 2010).

I. Documents Required by the Planning Board for Transactions of Land for Public Projects

- evidence of ownership or lease. For leased property, the lease must be accompanied by an authorization



from the owner to establish the requested use;

- number of land tax identification number (“cadastre”);
- project Drawings;
- owner letter authorizing the Engineer or Surveyor to submit this application.
- explanatory memorandum on the draft to be submitted;
- evidence of the environmental document process of the project to be submitted;
- evidence that the professional who made the plans is an active member of the College of Engineers and Surveyors of Puerto Rico and the College of Architects and Landscape Architects of Puerto Rico; and, copy of permit issued by the Board of Examiners for Engineers and Surveyors of Puerto Rico or the Board of Examiners of Architects and Landscape Architects of Puerto Rico which allows professionals to sign and seal documents.

J. Documents Required a Demolition Permit

- evidence of ownership or lease. For leased property, the lease must be accompanied by an authorization from the owner to establish the requested use;
- number of land tax identification number (“cadastre”) (if the inquiry is about a specific property);
- project Drawings;
- certification of No Asbestos and/or Lead;
- owner letter authorizing the removal or demolition;
- explanatory memorandum;
- evidence of environmental compliance of the project;
- endorsement of the Institute of Puerto Rican Culture and the Municipality; and,
- payment of \$300 per structure to be demolished (Administrative Order OGPe-2010-3 of November 30, 2010).

K. Documents Required for Submission of Buildings Drawings to Benefit from the Horizontal Property Regime (Condominium Law)

- evidence of ownership or lease. For leased property, the lease must be accompanied by an authorization from the owner to establish the requested use;
- number of land tax identification number (“cadastre”);
- evidence that the professional who made the plans is an active member of the College of Engineers and Surveyors of Puerto Rico and the College of Architects and Landscape Architects of Puerto Rico;
- copy of permit issued by the Board of Examiners for Engineers and Surveyors of Puerto Rico or the Board of Examiners of Architects and Landscape Architects of Puerto Rico which allows professionals to sign and seal documents;
- owner letter authorizing the Engineer or Surveyor to submit this application; and,
- payment (Administrative Order OGPe-2010-3 of November 30, 2010).

L. Documents Required for Submission of a Construction Consultation

- evidence of ownership or lease. For leased property, the lease must be accompanied by an authorization from the owner to establish the requested use;

- number of land tax identification number (“cadastre”);
- project Drawings;
- document detailing all proposed exceptions and/or variations;
- explanatory memorandum;
- evidence that the professional who made the plans is an active member of the College of Engineers and Surveyors of Puerto Rico and the College of Architects and Landscape Architects of Puerto Rico.
- copy of permit issued by the Board of Examiners for Engineers and Surveyors of Puerto Rico or the Board of Examiners of Architects and Landscape Architects of Puerto Rico which allows professionals to sign and seal documents; and,
- owner letter authorizing the Engineer or Surveyor to submit this application.

M. Documents Required for Submission of a Building or Green Building Permit Certificate (applies to structures to be built on vacant land and/or additions to existing structures)

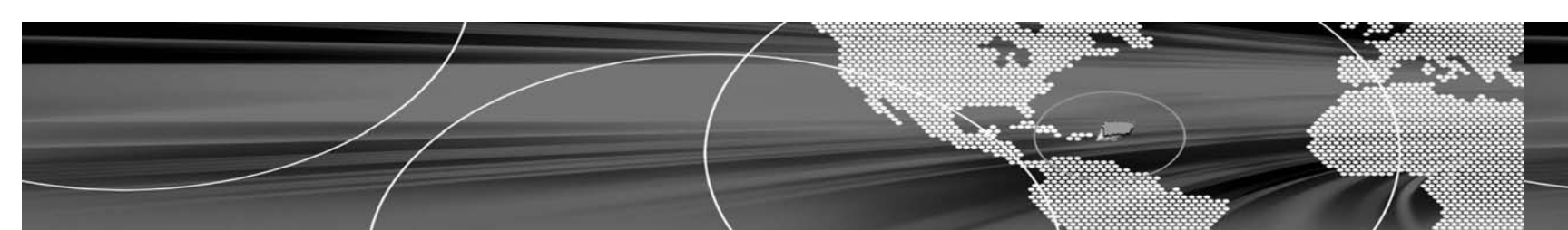
- evidence of ownership or lease. For leased property, the lease must be accompanied by an authorization from the owner to establish the requested use;
- number of land tax identification number (“cadastre”);
- project Drawings;
- evidence of environmental compliance of the project;
- estimated construction costs;
- recommendations from OGPe Divisions required for the project;
- evidence that the professional who made the plans is an active member of the College of Engineers and Surveyors of Puerto Rico and the College of Architects and Landscape Architects of Puerto Rico;
- copy of permit issued by the Board of Examiners for Engineers and Surveyors of Puerto Rico or the Board of Examiners of Architects and Landscape Architects of Puerto Rico which allows professionals to sign and seal documents;
- owner letter authorizing the Engineer or Surveyor to submit this application; and,
- stamps from the College of Engineers and Surveyors of Puerto Rico and/or College of Architects and Landscape Architects of Puerto Rico in the amount of one dollar (\$ 1.00) per thousand dollars (\$ 1,000.00) of estimated costs. In addition, the proponent must pay thirty-five cents (\$0.35) and five dollars (\$ 5.00) per thousand dollars (\$ 1,000.00) of estimated costs, as base charge and submittal charges respectively (Administrative Order OGPe-2010-3 as of November 30, 2010).

This list is not exhaustive, and there are other types of permits that have their own specific requirements. All forms to be used in the submitting process are available on the website www.sip.pr.gov.

5. Foreign Trade Zones (FTZ)

A. Introduction to FTZs

Puerto Rico offers importers the option of operating under foreign-trade zone (FTZ) procedures within all of its municipalities. FTZs are restricted-access sites legally considered outside the U.S. customs and border protection (CBP) territory for purposes of tariff laws and customs entry procedures. They are designed to promote foreign commerce, create employment, and attract trade investment to the United States and its territories.



In order to qualify for FTZ status, a company must import dutiable goods (raw materials, components, or finished goods) from at least one foreign country. The property where the operation will take place must be designated as part of a general-purpose zone (a designated area containing multiple users performing different qualified activities) or as a special-purpose subzone.

Within an authorized FTZ, businesses can warehouse and distribute goods and engage in manufacturing and processing, and foreign and domestic merchandise of every description (except as prohibited by law) may be stored, exhibited, broken up, repacked, assembled, distributed, sorted, graded, cleaned, mixed with foreign or domestic merchandise, or otherwise manipulated, exported, destroyed, or sent into customs territory. If a significant product transformation occurs, then a manufacturing authority must be requested.

The benefits of operating within an FTZ include:

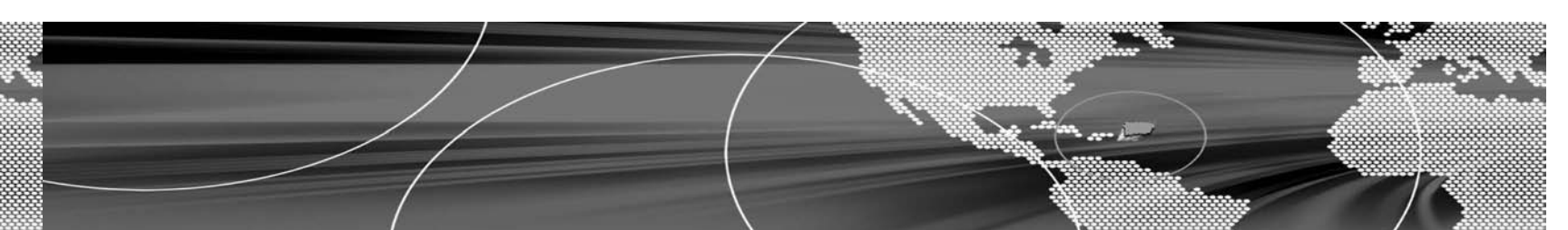
- deferment of custom duties on goods while those goods are in the zone or subzone;
- deferment of local excise taxes on goods while they are in the zone or subzone;
- inverted-tariff opportunities (at the time of entry to the US territory, the importer has the choice of paying duties either at the rate applicable to the foreign material in its condition as admitted into a zone, or if used in manufacturing or processing, at the emerging product rate);
- no duty owed on scrap, waste or damaged imports;
- zone-to-zone transfers (transfers of merchandise between zones are treated as foreign imports, allowing deferment of the corresponding duty while in the zone); and,
- value-added to the merchandise is not subject to tax imposition.

FTZ operators can also obtain certain tax advantages in Puerto Rico, including:

- cash flow advantages due to the deferment of custom duties and local excise tax (vehicles and petroleum derivatives);
- 100% exemption on tangible property and property and equipment used for the operation of the activated area;
- 60% exemption on appraisal value of the designated intangible property and activated as a zone or subzone; and,
- 100% exemption on exports from a zone or subzone towards a foreign country.

To obtain FTZ status, an enterprise must import merchandise, raw materials, components or finished goods as part of its regular operations. A feasibility study must be done to determine a company's eligibility, and accepted companies must provide an annual report of their activity in the FTZ. Moreover, the company must provide an endorsement of any of Puerto Rico's three authorized FTZ grantees. The main responsibilities of a grantee are to:

- provide and maintain facilities in connection with a zone;
- operate the zone as a public utility with fair and reasonable rates and charges for all zone services and privileges;
- report a full statement of operations held in the zone project, to the FTZ Board;
- maintain books, records and accounts in accordance with stated provisions;

- 
- apply to the Board for new projects, subzones and expansions of the zone project; and,
 - make written application to the Port Director for new zone operators and expanded operations.

In Puerto Rico, there are three FTZs:

B. FTZ No. 7

The Puerto Rico Industrial Development Company was authorized as the Grantee of FTZ No. 7 in 1960. Today, the zone is comprised of 4,666 acres of general purpose zone designated property throughout the island, plus 11 manufacturing subzones. FTZ No. 7 administrative division manages the grant, providing the following services (among others):

- feasibility study and pre-qualification of the company;
- elaboration and filing the designation application to the FTZ Board in Washington, DC;
- elaboration and filing of activation application to Customs and Border Protection (CBP);
- follow-up for compliance of regulations: FTZ Board, CBP, Grantee, and local agencies;
- continuing education for zone operators;
- identifies additional business opportunities within the zone operation; and
- state agent for PRIDCO's promotional process.

For more information, contact PRIDCO's FTZ Administrative Division at:

P. O. Box 362350
San Juan, PR 00936-2350

or
PRIDCO Building
355 Roosevelt Avenue, Suite 405
Hato Rey, PR 00918

Tel. (787)758-4747

C. FTZ No. 61

The Puerto Rico Trade Company was authorized as the Grantee of FTZ 61 in 1980. The zone commenced operations in 1986 at the International Trade Center (ITC) located in Guaynabo, PR. Today, the zone is comprised of 1,649 acres with zone designation with 691,000 square feet of warehousing facilities in Guaynabo and 419,000 square feet in Mayagüez. FTZ 61 provides the following services:

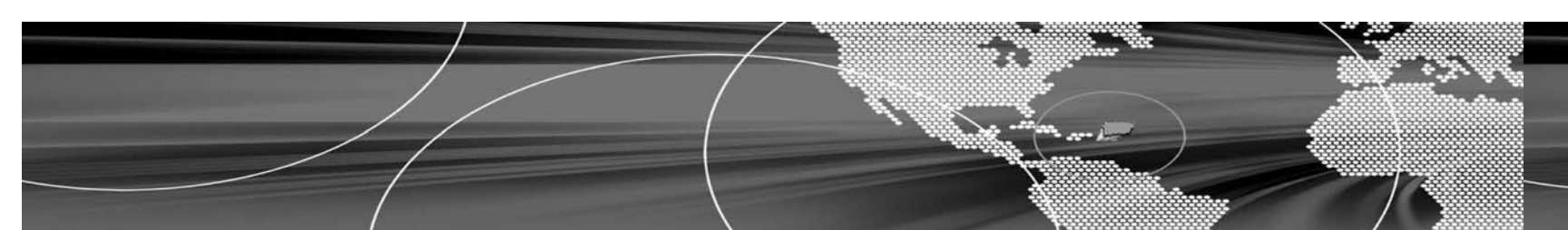
- JIT transport;
- distribution;
- logistics;
- storage;
- re-exports; and
- value-added activities.

For more information, contact the Trade Company's FTZ Administrative Division at:

Puerto Rico Trade Company
Real Estate & Foreign-Trade Zone
P. O. Box 195009
San Juan, PR 00919-5009

Tel. (787)294-0101

or
International Trade Center – Road 165 Km. 2.4
Pueblo Viejo Ward



Guaynabo, PR 00968

D. FTZ No. 163

Codezol, C.D. (Corporación para el Desarrollo de la Zona Libre de Ponce) was authorized as the Grantee of FTZ 163 in 1989. The zone is comprised of 694 acres of FTZ designated property in Ponce and other municipalities. Codezol offers:

- outdoor warehouse space to store merchandise;
- containers;
- equipment and vehicles;
- designated indoor warehousing facilities; and
- 3PL services.

For more information, contact CODEZOL at:

CODEZOL, CD

P.O. Box 34129 / Ponce, PR 00734-4129

3540 Santiago de los Caballeros Ave., Ponce Harbor

Ponce, PR 00716-2011

Tel. (787)259-4445

6. Available Government Properties

A number of government agencies own real property that they make available to investors.

A. The Puerto Rico Land Administration

The Puerto Rico Land Administration is a public corporation that forms a part of the Department of Economic Development and Commerce. It controls a portfolio of land and buildings that it is empowered to sell, lease, or develop. The procedures for leasing, sale and transfer of real rights are governed by the Regulation of the Puerto Rico Land Administration for Transactions of Real Rights over Properties, number 7647, approved by the State Department on December 23, 2008.

In addition, the Land Administration is authorized to acquire property through expropriation for itself and for the projects of other governmental entities that lack this power.

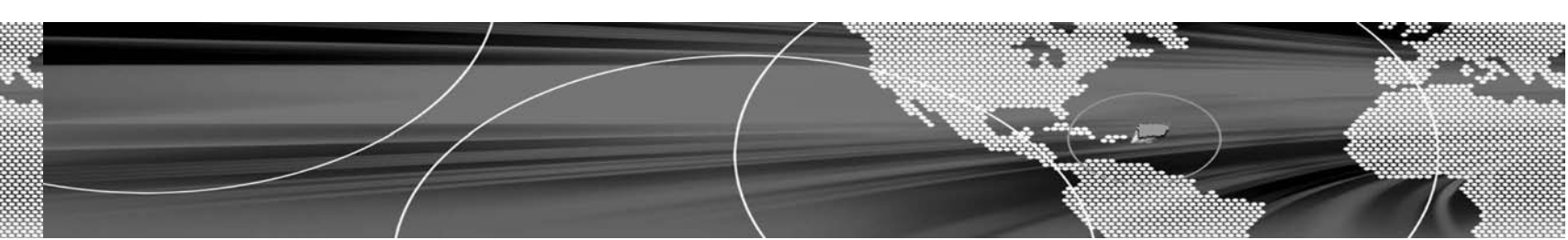
B. The Puerto Rico Industrial Development Company (PRIDCO)

PRIDCO can offer investors a range of real estate assets for industrial, commercial, and institutional uses, including ready-for-development green-field sites and buildings ranging in size from 4,000 to over 100,000 square feet.

To lease a PRIDCO property, an investor should identify the property to PRIDCO's real estate department, reserve the property with a one-month deposit, provide information to PRIDCO about the proposed activity for evaluation, and negotiate and execute a lease agreement. To purchase a property, the investor should identify the property to PRIDCO's real estate department, provide a \$10,000 initial deposit to reserve the property and perform a professional appraisal and other studies, negotiate the sale for approval by PRIDCO's board of directors, and, upon board approval, provide a further deposit and arrange closing with PRIDCO's legal department. Investors can obtain information through www.puertoricodoesitbetter.com.

C. The Puerto Rico Tourism Company

The Puerto Rico Tourism Company maintains an inventory of properties with tourism development potential. Those properties include green sites, sites with permitted-but-not-financed projects, and already-built projects in need of refurbishment and/or new operators. The Tourism Company is developing a GIS-based Tourism Development Properties Inventory that will be available online at the Tourism Company's institutional website. The Inventory will contain basic physical and planning data for each property, as well as owner informatio.



D. The Puerto Rico Trade Company

The Puerto Rico Trade Company maintains an inventory of commercial properties for rent throughout the island. These properties include Foreign Trade Zones, warehousing, and distribution and logistics facilities. The properties are strategically positioned throughout the San Juan metro area and the south and west coasts near major business or logistics hubs. They are available at competitive rates.

The Puerto Rico Trade Company also maintains the Puerto Rico World Trade Center San Juan franchise. Participants have access to the most innovative ideas in international business, international marketing channels, and the benefits and services of the World Trade Center Association.

E. The Puerto Rico Land Authority

The Puerto Rico Land Authority is a public corporation dedicated to developing Puerto Rico’s agricultural and agro-industrial sector. Part of this mission involves preserving and managing high-value agricultural lands and making them available to farmers through economically viable leases for the development of agricultural projects. The Authority can lease agricultural land for a wide range of agricultural activities, and any person or juridical entity that presents a viable development proposal and has the means to execute it can apply.

The Authority has nine regional areas and each has an inventory of agricultural land and structures:

Barceloneta y Arecibo	Vega Baja Unit	(787) 807-0048
Florida, Manatí & Vega Baja	Vega Baja Unit	(787) 807-0048
Vega Alta, Dorado, Toa Alta & Toa Baja	Vega Baja	(787) 807-0048
Carolina, Loíza, Canóvanas, Río Grande, Luquillo	Main Office, Santurce	(787) 723-9090 x 2316
Fajardo, Humacao, Naguabo, Yabucoa, Maunabo, Ceiba & Vieques	Main Office, Santurce	(787) 723-9090 x 2317
Santa Isabel	Garden Produce Program, Santa Isabel	(787) 845-7000, 845-7010
Salinas, Arroyo, Guayama, Juana Díaz & Ponce	Garden Produce Program, Santa Isabel	(787) 845-7000; 845-7010
Sabana Grande, Guánica, Lajas, San Germán & Cabo Rojo	Santa Rita, Guánica, Unit	(787) 821-2510, (787) 821-2560
Mayagüez, Añasco, Aguada, Aguadilla, Moca, San Sebastián, Lares & Hatillo	Vega Baja Unit	(787) 807-0048



Chapter 7: Environmental Law

1. The Legal Framework and Relevant Agencies

As a territory of the United States, Puerto Rico is subject to both the same federal environmental laws and regulations that apply on the U.S. mainland and local environmental laws and regulations. The U.S. Environmental Protection Agency (EPA) is charged with managing and enforcing federal environmental programs in Puerto Rico, although it has delegated certain of these responsibilities to the Puerto Rico Environmental Quality Board (EQB). The EQB is Puerto Rico's primarily environmental policy-making body. Its mandate is to protect and conserve the environment with policies that prevent and undo environmental degradation while balancing environmental protection with economic development. To achieve this objective, the EQB issues regulations establishing standards designed to minimize environmental harm and control activities that cause pollution. The EQB can enforce these regulations with fines up to \$25,000.00 (\$50,000.00 in absentia) for each violation (and each day during which an offense occurs may be considered a separate violation) and by suspending, amending or revoking any permit, certification, approval or other authorization. The Puerto Rico Department of Natural and Environmental Resources (DNER) is in charge of implementing the environmental policy established by the EQB by creating programs for the use and conservation of the natural resources of Puerto Rico based on the standards established by the EQB. Among other things, it has jurisdiction over: (a) any activity that calls for the extraction, excavation, removal and dredging of the earth's crust (components such as sand, gravel, stone, soil, silica, calcite, clay and any other similar components) that is not regulated as a mining operation, whether on public or private land; (b) the maritime terrestrial zone; and (c) tree cutting, pruning and removal.

Although the EQB and DNER are Puerto Rico's principal environmental agencies, other agencies are also in charge of regulating specific environmental issues, such as hazardous materials transport, land use planning, and construction, including the U.S. Department of Transportation, the Puerto Rico Department of Transportation and Public Works, the P. R. Planning Board, the P.R. Permits and Regulations Authority, and the various Autonomous Municipalities.

2. Key Federal Environmental Statutes

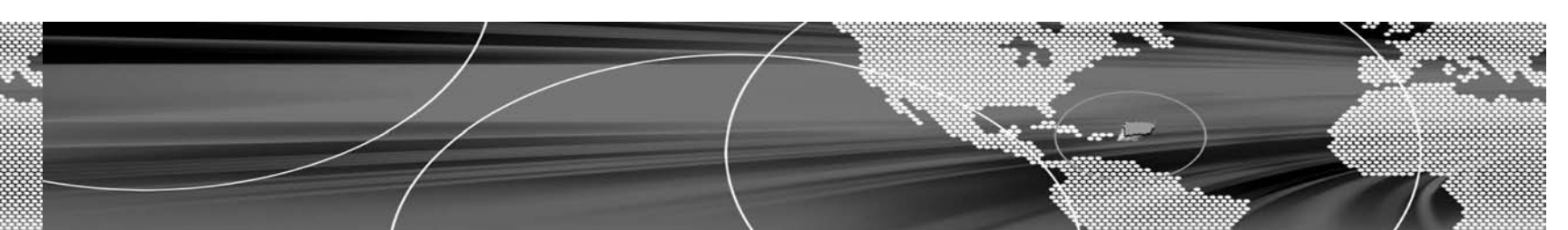
A. Resource Conservation and Recovery Act (RCRA)

RCRA's primary goal is to control the generation, transportation, storage, treatment and disposal of hazardous waste. The administration of RCRA has been delegated to a number of states by statute and, therefore, the states regulate most aspects of hazardous waste management within their borders. By statute, the disposal of hazardous waste is prohibited except in accordance with a permit.

B. The Comprehensive Environmental Response, Compensation and Liability Act (CERCLA)

CERCLA, or Superfund as it is commonly called, was enacted in 1980 to provide for the clean-up of heavily contaminated areas by giving the EPA a vehicle to recover for damage to natural resources caused by hazardous substance releases. Specifically, CERCLA allows the government and private parties to sue "Potentially Responsible Parties" (PRPs) for reimbursement of clean-up costs caused by releases of hazardous substances. Liability is strict, joint and several, with little or no regard for causation. By statute, there are three categories of persons liable for clean-up costs:

- "Owners or Operators" of the Contaminated Facility: A "contaminated facility" is virtually any place in which a hazardous substance is found. The current owner or operator is liable, regardless of when the hazardous substance was disposed of at the facility, or whether the present owner or operator did anything to contribute to the release.
- "Owners or Operators" of the Facility at the Time Release of the Hazardous Substance: Any person who contracted or arranged to have hazardous substances taken to, disposed of, or treated at a facility. This category generally applies to generators and manufacturers.
- Transporters of Hazardous Substances.



There are limited defenses under Superfund that are narrowly construed. A PRP can escape liability if it can establish that the hazardous substance release was caused solely by an act of war, an act of God, or an act of unrelated third parties. This latter “third party” defense does not apply if the damage from hazardous substances was caused by an employee or agent of the PRP, or a third party acting in connection with a contract with the PRP.

C. The Clean Air Act (CAA)

The CAA regulates air pollutants under federal standards implemented and enforced by the states. The Act includes programs for acid rain control, stratospheric ozone protection, attaining the National Ambient Air Quality Standards (NAAQS) and reducing emissions of hazardous air pollutants.

Under the Act, air emissions are regulated through various controls. The EPA has issued NAAQS for six (6) criteria pollutants: sulfur dioxide, particulate matter, nitrogen oxide, carbon monoxide, ozone and lead. The NAAQS are implemented through enforceable source-specific emission limitations and other air quality rules established by the States in Implementation Plans (SIPs), which are designed to “attain” or “maintain” NAAQS.

The CAA has established New Source Performance Standards (NSPS) that are technology-based emission standards for specific industry source categories. These standards are not dependent on the ambient air quality of an area and require new or modified stationary sources subject to a NSPS to employ the best available control technology. Major sources that emit Hazardous Air Pollutants (HAPs) are required to develop technology-based standards consistent with “Maximum Achievable Control Technology” (MACT). Pollutants may be regulated under one or more of these standards. The CAA, as amended, requires a new operating permit for all major air sources, with state administration and enforcement.

D. The Clean Water Act (CWA)

The CWA regulates the discharge of pollutants into all navigable waters. The CWA prohibits the discharge of any pollutant into the water of the U.S. except in compliance with a National Pollutant Discharge Elimination System (NPDES) permit. Permits are issued by either the state under an approved state program or by the EPA if the state program has not been approved. Puerto Rico does not have an approved program.

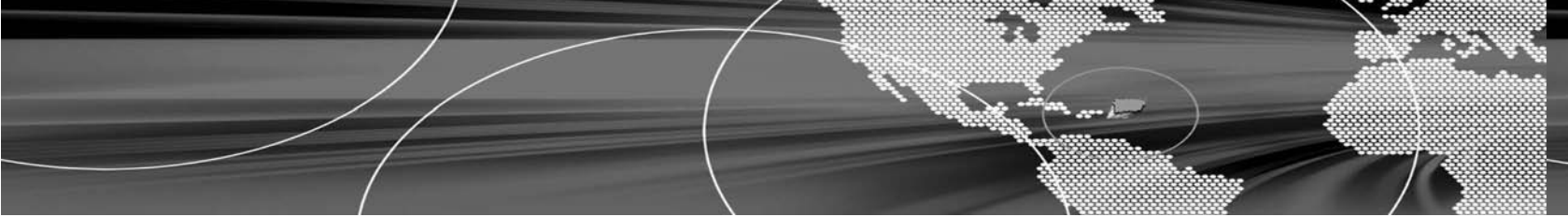
The permit limits are based upon EPA’s effluent limitation regulations. The CWA effluent limitations for industrial discharges also specify standards for pre-treatment for those who discharge into a publicly owned treatment facility. EPA rules also cover permits for storm water discharges under the NPDES permit program. Any project that envisions developing a property must commence by evaluating the site’s zoning and use restrictions to ensure there is consistency between the zoning mechanism and what the property will be used for, in order to authorize the project. As part of a project’s environmental due diligence a proponent must first prepare an Environmental Impact Review (EIR). No permits will be issued until the EIR is done.

3. Key Puerto Rico Environmental Statutes

Puerto Rico’s Environmental Public Policy Act deals primarily with the evaluation of environmental impacts. It typically requires an endorsement letter from a “lead governmental agency” to the EQB and is required as a precondition to obtaining other permits.

The Planning Board requires that a site consultation be made, when the proposed use of a project is inconsistent with current zoning. The Regulations and Permits Administration also requires a consultation on conformity with the zoning regulation when a proposed project does not comply with certain provisions of the Zoning Regulation or Territorial Ordinance Regulation (if located within an Autonomous Municipality). The environmental legal framework in Puerto Rico arises mainly from the Constitution of the Commonwealth of Puerto Rico and the Puerto Rico Environmental Public Policy Act and its enabling regulations. Environmental law in Puerto Rico also arises from the enabling laws and regulations of the Department of Natural and Environmental Resources (DNER), the Puerto Rico Aqueduct and Sewer Authority (PRASA), and the Puerto Rico Department of Health, among others. In addition, the Penal Code for Puerto Rico codifies four (4) environmental crimes: havoc, poisoning of waters for public use, environmental pollution and aggravated environmental pollution.¹⁵²

¹⁵² 33 L.P.R.A. § 4868-4871.



In Puerto Rico, environmental and natural resource protection policies have a Constitutional rank. Specifically, Article VI, Section 19, of the Constitution of the Commonwealth of Puerto Rico provides that it is Puerto Rico's public policy to conserve, develop and use the natural resources of Puerto Rico in the most effective possible way for the benefit of the general welfare. The Puerto Rico Supreme Court has broadly interpreted this constitutional guarantee. See *Misión Industrial v. J.C.A.*, 145 D.P.R. 908, 918 (1998); *Colón Cortes v. Pesquera*, 150 D.P.R. 724 (2000).

The Puerto Rico Environmental Public Policy Act, Act No. 416 of September 22, 2004¹⁵³, establishes the organizational and jurisdictional legal framework for the Environmental Quality Board (EQB), which is the agency principally in charge of implementing the Constitutional mandate of Article VI, Section 19. Under this law, the EQB has also been designated as the Puerto Rico agency empowered to execute, receive, implement and administer the delegation, establish regulations, and implement related permit programs for United States federal environmental laws, including the Clean Water Act¹⁵⁴, the Clean Air Act¹⁵⁵, the Solid Waste Disposal Act, as amended by the Resource Conservation and Recovery Act¹⁵⁶, the Comprehensive Environmental Response, Compensation and Liability Act¹⁵⁷, as well as any other federal legislation that is related to the environment and natural resources, among others.¹⁵⁸ As of this date, several programs under these federal laws have been delegated to EQB for implementation and enforcement, such as the Title V program under the CAA (governing major air emissions sources); the Underground Storage Tank program under RCRA; and the Underground Injection Control program under the Safe Drinking Water Act. With respect to those programs for which there has been no delegation but the agencies have parallel regulatory programs, in many cases EPA and EQB have agreements to coordinate the enforcement and implementation of their regulations.

A. Regulation for the Control of Atmospheric Pollution

The EQB's Regulation for the Control of Atmospheric Pollution (the Air Regulation) establishes requirements, standards, criteria and prohibitions related to air emission sources. The term "air emission source" is defined very broadly and covers practically any structure, building, facility or installation that emits or may emit any air pollutants (including dust, fumes, mist, smoke, other particulate matter, vapors, gases, odors, physical, chemical, biological, or radioactive substances, or any combination thereof). See, Air Regulation, Rule 102.

Among other things, the Air Regulation requires permits for the construction and operation of air emissions sources and establishes general requirements regarding air emissions source monitoring, recordkeeping, reporting, sampling and testing for all regulated air emissions sources. *Id.*, Rules 103, 203 and 204.

B. EQB Regulation for the Management of Non-Hazardous Solid Wastes

The EQB's Regulation for the Management of Non-Hazardous Solid Wastes generally applies to the generation, collection, storage, management and disposal of non-hazardous solid waste.

C. EQB Underground Storage Tank Regulation

The EQB's Underground Storage Tank Regulation (the UST Regulation) requires the owner of a UST to register its USTs with the EQB and to comply with specified operation, reporting and recordkeeping requirements.

The UST Regulation was modeled after the federal RCRA UST counterpart regulations, and this federal program has been specifically delegated by EPA to EQB.

D. EQB Underground Injection Control Regulation

The EQB's Regulation for Underground Injection Control (the UIC Regulation) requires commercial establishments to obtain permits for the construction and operation of septic tanks (Class V, Type C1 wells) used for the underground injection or disposal of sanitary wastes. (As mentioned, the federal UIC program was delegated to EQB by EPA, and therefore, EQB has primary authority for its administration and enforcement.)¹⁵⁹

¹⁵³ 12 L.P.R.A. §§ 8001 et seq. (Act 416).

¹⁵⁴ 33 U.S.C. §§ 1251 et seq. (CWA)

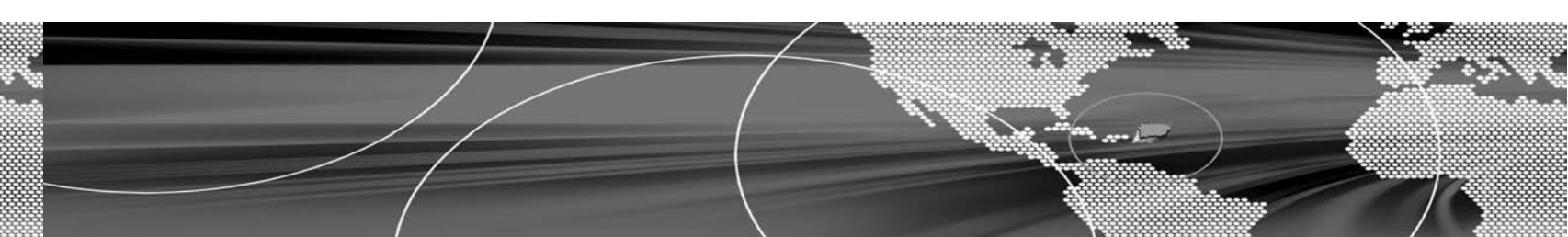
¹⁵⁵ 42 U.S.C. §§ 7401 et seq. (CAA)

¹⁵⁶ 42 U.S.C. §§ 6901 et seq. (RCRA)

¹⁵⁷ 42 U.S.C. §§ 9601 et seq. (CERCLA)

¹⁵⁸ 12 L.P.R.A. §§ 8002g.

¹⁵⁹ Rules 101, 301 (A)(5), 302 and 303.



E. Water Pollution Prevention

The EQB's Water Quality Standards Regulation (the WQS Regulation) classifies the waters of Puerto Rico based on their intended use, establishes general water quality standards for discharges into all such waters, and generally prohibits water pollution, among other things. The regulation, however, does not contain a permitting program regulating water discharges similar to the one established by EPA under the CWA. In light of this, EPA cannot and has not delegated its permitting program under the CWA- titled the National Pollutant Discharge Elimination System (NPDES) program- to EQB. Therefore, EPA has primary authority to administer and enforce the NPDES program in Puerto Rico.

F. EQB Regulation for the Control of Hazardous Wastes

The EQB's Regulation for the Control of Hazardous Waste governs the generation, management, treatment, storage and disposal of hazardous wastes; in essence, it governs all stages of the life of a hazardous waste. Its provisions are very similar to the federal counterpart regulations promulgated pursuant to RCRA. The RCRA hazardous waste program, however, has not been delegated to EQB. As such, EPA retains its jurisdiction to administer and enforce the RCRA hazardous waste program in Puerto Rico, and both the federal and local hazardous waste regulations are enforceable in Puerto Rico.

G. Solid Waste Authority Recycling Requirements

The Solid Waste Authority's Regulation for the Reduction, Reuse and Recycling of Solid Waste establishes that a private entity with more than ten (10) employees must retain an environmental coordinator and/or a working committee and prepare and implement a Recycling Plan. The Recycling Plan must include: (a) a commitment letter from the company's management establishing the responsibilities that it has taken upon itself in order to achieve the goals set in the company's Recycling Plan; (b) a description of the strategies and activities that will be developed to reach the goals and objectives established in order to reduce, reuse and recycle solid waste; (c) a description of the current practices regarding generation, management and disposal of its solid waste; (d) a description of the current recycling program, if any; (e) a description of educational activities for the implementation of the Recycling Plan; and (f) a description of the evaluation mechanisms to measure the progress regarding the implementation of the Recycling Plan, among other things.

H. DNER – Monitoring Wells

Act. No. 136 of 1976, commonly known as the Law of Waters of 1976¹⁶⁰, and the DNER's Regulation for the Appropriation, Use, Conservation and Administration of the Waters of Puerto Rico (the Water Regulation) promulgated thereunder, requires permits for the construction and operation of environmental investigation or monitoring wells. Water Regulation, Article 10. A permit holder for water wells must submit copies of all of the water quality and extraction reports generated during the operation of the well, as they are generated.

I. PRASA Regulation for the Supply of Water and Sewer Service

PRASA's Regulation for the Supply of Water and Sewer Service provides that no person may connect to PRASA's system without authorization from the agency. PRASA may require that a deposit or bond be posted to guarantee payment for water services. These regulations also require an industrial discharge permit (requiring pre-treatment) in cases where there are non-sanitary discharges that meet certain criteria (usually associated with industrial operations).

¹⁶⁰ 12 L.P.R.A. § 1115(a)-(v) (1976)



4. Environmental Permitting

As discussed in Chapter 6, a construction permit is required for the construction of a new structure or remodeling of an existing structure, subject to certain exceptions. Once a construction permit is issued by the Office of the Inspector General of Permits (OIGPe), the EQB will issue a Consolidated General Permit. The Board will also issue permits for non-hazardous solid waste generating activities resulting from construction activities; a Control of Erosion and Prevention of Sedimentation Permit; a construction permit for air emission sources; an operating permit for air emission sources and others, depending on the nature of the project.

The US Environmental Protection Agency will require a storm water construction permit for discharges associated with construction activities on a site exceeding one acre in size. The DNER requires an earth extraction permit for activities incidental to a construction project approved by OIGPe.



Chapter 8: Financial Services and Insurance

1. Government Banks

A. Government Development Bank (GDB) ¹⁶¹

The GDB serves as the bank, fiscal agent and financial advisor to the Commonwealth of Puerto Rico and its instrumentalities. Its chief mission is to safeguard the fiscal stability of Puerto Rico and promote its competitiveness to transform Puerto Rico's economy. Although the GDB's primary client is the government of Puerto Rico, its subsidiaries and affiliates offer valuable services to the private sector.

(1) Puerto Rico Housing Finance Authority (PRHFA)

The PRHFA provides mortgage loans to public and private housing developers for the construction, improvement, operation, and maintenance of rental housing for low to moderate income families. It also offers mortgage loans to citizens of low and moderate income. In addition, the PRHFA administers the Mortgage Loan Insurance Program (Act No. 87) and the housing subsidy program, Key to your Home.

The PRHFA is certified by the U.S. Department of Housing and Urban Development to administer the U.S. Housing Act Section 8 program in Puerto Rico and to act as an approved mortgager for both multi-family rental units and for single-family homes. It can issue bonds and notes to invest in federally insured mortgage loans on properties located in Puerto Rico and purchased by low and moderate-income families. In addition, it is an authorized issuer of Government National Mortgage Association (GNMA) mortgage-backed securities. The corporation is also Puerto Rico's State Credit Agency for the Low-Income Housing Tax Credit program under Section 42 of the U.S. Internal Revenue Code.

(2) Puerto Rico Tourism Development Fund (TDF)

The TDF promotes Puerto Rico's hotel and tourism industry by making available direct loans, letters of credit, and guarantees to secure the private financing for new hotel development projects. The TDF has enabled the development of 20 projects with a total investment in excess of \$1.76 billion—of which the financing component totaled more than \$1.14 billion guaranteed by the Fund—representing over 4,500 hotel rooms and amenities and 9 golf courses around the island. The net assets of the Fund as of May 31, 2008 were approximately \$146 million.

3) Puerto Rico Industrial, Tourist, Educational, Medical and Environmental Control Facilities Financing Authority (AFICA)

AFICA is authorized to provide financing through tax-free bond issues for certain public and private projects that help to develop Puerto Rico's economy, including industrial, medical, educational, and tourist facilities. The money generated from the bonds is loaned to AFICA through a loan contract that is then issued to the project developer. This gives investors access to tax-free income and lower cost financing than typically available from private lenders. As of June 30, 2008, AFICA bond issues totaled more than \$6.0 billion, of which \$1.5 billion is still outstanding.

¹⁶¹ <http://www.bgfpr.com>



B. Economic Development Bank (EDB) ¹⁶²

As discussed in Chapter 4 above, the Economic Development Bank (EDB) offers financial support to small and mid-sized enterprises (SMEs) through asset based loans; participation loans with private financial institutions or under the SBA 504 loan guarantee program; mezzanine financing or capitalization loans; tourism projects loans; management buy-out loans; and credit lines for operational capital. The EDB's principal financing programs are:

- Loans of up to \$500,000 for women entrepreneurs
- Loans of up to \$5 million for agricultural projects
- Loans of up to \$500,000 for new business-owners
- Loans of up to \$300,000 for environmentally friendly projects
- Loans of up to \$5 MM for businesses that help their industry
- Line of credit of up to \$750,000 for federal contractors
- Line of credit of up to \$750,000 for companies looking to export

In addition to making direct loans, the EDB participates in orientation workshops for business in several forums throughout Puerto Rico, with the objective of providing the information required for the establishment or development of a business, from how to prepare a business plan, government incentives, financing alternatives and available services. Such workshops have the support and participation of private entities and government agencies, as well as key organizations in the development of small and medium-sized entrepreneurs. The EDB's Economic Development Bank Capital Investment (EDBCI) component supports the Bank's mission in promoting the private sector economic development by investing in equity and other forms of capital start-up, early or later stage local enterprises or venture capital funds, for which the more traditional forms of obtaining financial resources are not accessible.

2. Private Financial Institutions

A. Office of the Commissioner of Financial Institutions (OCIF) ¹⁶³ (its Spanish acronym)

The OCIF is Puerto Rico's financial services sector regulator, and it is responsible for formulating public policy and regulating and auditing the sector's institutions and ensuring compliance with regulatory mandates. OCIF has jurisdictions over the following depository institutions, securities dealers, and non-depository institutions:

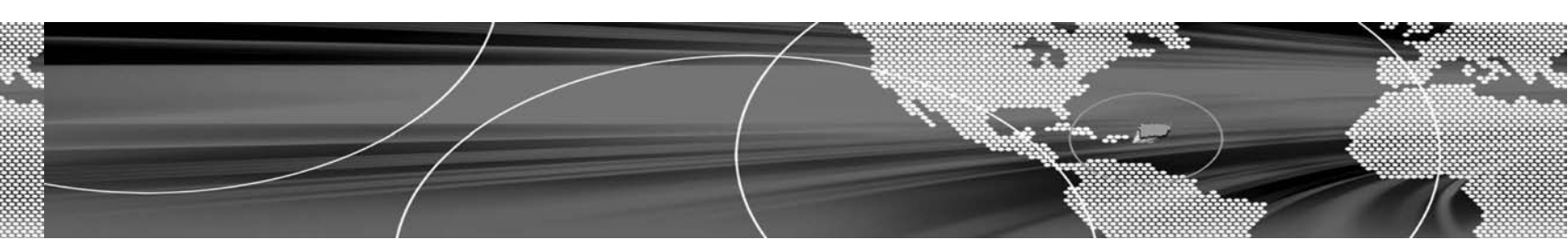
- Commercial Banks
- Cooperative Banks (Credit Unions) ¹⁶⁴
- Government Banks
- International Banking Entities
- Public Funds Depositories
- Broker-dealers (brokerage firms)
- Securities brokers or agents
- Investment advisors
- Investment companies
- Capital investment funds
- Mortgage institutions
- Personal property leasing companies
- Finance and Installment sales companies
- Financial intermediaries
- Small personal loan companies
- Credit restoration agencies
- Check cashing business
- Casinos
- Pawnbrokers
- Credit reporting agencies
- Agencies that transfer funds abroad

Among its various responsibilities, OCIF issues and renews licenses to regulated institutions, including the establishment and operation of local investment companies and venture capital firms, and issues administrative rulings and circular (opinion) letters on laws and regulations.

¹⁶² <http://www.bdepr.org/>

¹⁶³ <http://www.ocif.gobierno.pr/>

¹⁶⁴ Under Act No. 114 of 2011, the Puerto Rico Corporation for the Supervision and Security of Cooperatives (COSSEC) assured exclusive supervision of credit unions (7 L.P.R.A. §1334b). The Commissioner of the OCIF is a member of the Board of Directors of COSSEC.



According to data from the Office of the Commissioner of Financial Institutions of Puerto Rico, as of June 1, 2011, the following financial institutions were authorized to do business in Puerto Rico:

- 11 banks with 443 branches
- 45 securities firms 994 agents
- 32 international banking entities
- 50 investment companies
- 30 financial intermediaries with 99 branches
- 79 check changing offices with 73 branches
- 45 mortgage institutions with 376 branches
- 170 leasing companies with 30 branches
- 17 credit restoration agencies with 2 branches
- 201 pawn shops with 84 branches
- 23 casinos
- 99 financing companies with 174 branches
- 6 small personal loan companies with 173 branches
- 3 capital investment funds
- 23 Money Transmitter 2185 agents

These categories of institutions had the following assets and capital in Puerto Rico:

Financial Sector Assets and Capital (As of September 30, 2011)		
Segment	Assets (thousands)	Capital (thousands)
Commercial Banks (a) (b)	\$69,973,000	\$6,828,632
International Banking Entities (IBE)	42,948,780	6,930,284
Brokerage Firms	4,677,706	2,417,449
Mortgage Lenders	5,787,100	1,162,344
Investment Companies	14,663,885	8,127,219
Leasing Companies	1,606,030	349,843
Financing Companies	3,958,222	683,191
Government Banks (d)	17,180,617	2,622,781
Small Personal Lending Companies	666,900	211,317
Capital Risk Funds	52,788	51,813
TOTAL	\$161,514,028	\$29,384,873

OCIF also ensures that the interests of the island’s financial institutions’ customers are adequately protected. The agency receives and addresses customer inquiries and complaints, in some cases directing complainants to the appropriate federal agency. It investigates violations of the laws and regulations that it administers and manages.

B. Commercial Banks

As of September 30, 2011, commercial banks operating in Puerto Rico had the following assets and liabilities:

Bank	Assets	Net Loans	Deposits	Capital	# Branches
Bco Popular PR	\$26,101,000	\$17,897,000	\$20,746,000	\$2,139,000	185
Scotiabank	6,856,107	4,974,828	3,710,861	747,997	46
Bco. Santander	6,718,342	5,457,585	5,368,102	741,165	55
BBVA	4,868,824	3,371,741	2,943,506	579,400	36
Firstbank	11,300,987	8,297,263	8,607,667	1,186,994	48
Doral	6,882,634	5,262,436	4,207,462	662,240	29
Oriental	6,937,571	1,683,879	2,381,551	680,305	30
Bco. Cooperativo PR	513,646	182,486	440,704	70,448	1
Citibank N.A.	1,335,511	1,024,154	1,340,211	-12,136	4
Nova Scotia PR	1,367,049	646,293	238,252	37,179	1
Banesco	2,792	1,184	7,997	-5,265	1
Total	\$72,884,463	\$48,798,849	\$49,992,313	\$6,827,327	436

1. This report includes banks organized under Puerto Rico's Banking Act (Act No. 55 of 1933) and the Cooperative Bank of Puerto Rico Act (Act No. 88 of 1966).

2. These figures include International Banking Entities (IBE's) organized as Units under the International Banking Center Act (Act No. 52 of 1989).

(1) Puerto Rico Regulations

Commercial banks organized in Puerto Rico are governed by the Banking Law of Puerto Rico,¹⁶⁵ which establishes the organization and legal powers of banks and the requirements for the prudent and financially sound operation of such institutions, including reserve requirements, borrowing limits, and other solvency-related mandates.

(2) Federal Regulations

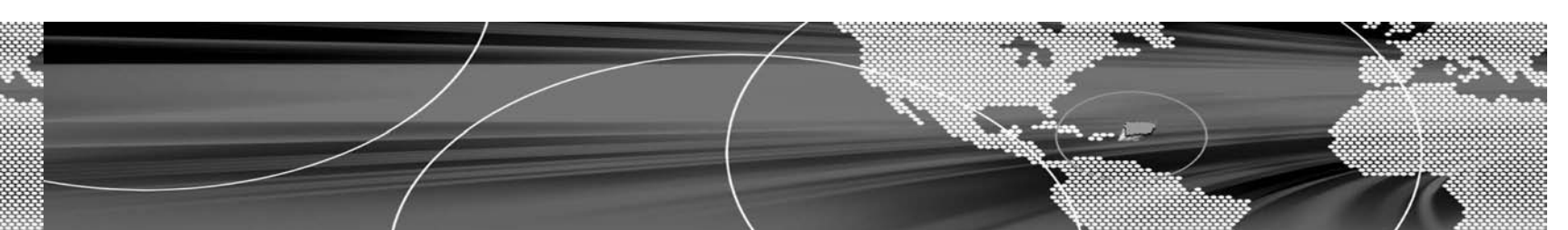
Depending on their particular circumstances, banks organized in Puerto Rico or doing business in Puerto Rico are also subject to various federal banking laws and the supervision of various federal banking agencies. The bank holding companies of financial institutions organized in Puerto Rico are subject to the federal law known as the Bank Holding Companies Act of 1956.¹⁶⁶ Additionally, banks organized under the Banking Law of Puerto Rico must insure their deposits with the Federal Deposit Insurance Corporation and are thus subject to the Federal Deposit Insurance Act.¹⁶⁷ They are also subject to the Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 and related regulations on interstate branching that apply to banks organized under the laws of the U.S. states.

Other federal laws that apply to banks organized and doing business in Puerto Rico are the Community Reinvestment Act, USA Patriot Act, and anti-money laundering laws. Similarly, banks operating in Puerto Rico are subject to the guidelines of the Treasury Department's Office of Foreign Assets Control to prevent transactions with certain foreign nations and individuals designated by this agency.

¹⁶⁵ 7 L.P.R.A. §§ 1-278.

¹⁶⁷ 12 U.S.C.A §§ 1841-1850.

¹⁶⁸ 12 U.S.C.A §§ 1811-1835a.



However, under the federal International Banking Law¹⁶⁹ (IBL), banks organized under the Banking Law of Puerto Rico are considered foreign banks. The main purpose of IBL is to regulate and institute procedures to establish a branch or agency of a foreign bank in any state of the United States or the District of Columbia.

C. Savings and Credit Unions of Puerto Rico

(1) Introduction

Savings and credit unions are financial institutions created under Puerto Rico's Credit Union Law.¹⁷⁰ Basically, a savings and credit union is an autonomous association of individuals that have united voluntarily to meet their economic, social, and cultural needs and aspirations through a jointly owned and democratically controlled enterprise. The main differences between a savings and credit union and a commercial bank are: (i) voluntary and open membership; (ii) democratic member control, a credit union has equal voting rights among its members (one member, one vote); (iii) members' economic participation, they contribute equitably to the capital of the union and can receive limited compensation, if any, on capital subscribed as a condition of membership; (iv) education, training and information for their members; (v) concern for the community, as credit unions work for the sustainable development of their community; and (vi) credit unions offer interest lower than what the market is offering. As of September 30, 2011, there were 116 credit unions operating throughout the island. Credit Unions can offer essentially the same wide range of personal and commercial financial services as commercial banks.

Credit unions are governed by all state and federal laws applicable to other financial institutions, such as banking, as well as by state regulations specifically directed to credit union operations. These regulations safeguard the financial and operational health of the credit unions and the interests of their partners and customers.

(2) Corporation for the Supervision and Insurance of Puerto Rico

Credit Unions (COSSEC)¹⁷¹ (its Spanish acronym)

COSSEC supervises Puerto Rico's savings and credit unions. Among other things, COSSEC monitors the sector in a comprehensive and consolidated way, ensures the financial solvency of credit unions and the rights and privileges of credit union members, and provides credit unions with insurance for shares and deposits (up to \$250,000.00 per depositor). To fulfill this mission, COSSEC's specialized professionals provide quarterly assessments and full examinations every 18 months, provide legal guidance to executives and directors of savings and credit unions, and investigate complaints and inquiries regarding any savings and credit union. As of September 30, 2011, Puerto Rico savings and credit unions had assets including:

- \$4,355 million in loans
- \$7,346 million in deposits
- 879,682 members and 323,688 depositors for more than one million customers.
- 2,970 employees
- 236 ATM machines throughout Puerto Rico
- 151 branches or service office throughout the island

For additional information on credit unions please visit www.cossec.com.

¹⁶⁹ 12 U.S.C.A §§ 3101-3111.

¹⁷⁰ 7 L.P.R.A. §§ 1361-1371b.

¹⁷¹ <http://www.cossec.com/>.

D. International Bank Entities (IBE)

As of June 1, 2011, there were 33 IBEs operating in Puerto Rico.

E. Securities Firms

As of third quarter 2011, the following securities brokers were operating in Puerto Rico:

Securities Brokers: Total Customer Assets Under Control

Institution	Q3-2011
Samuel Ramírez	\$ 114,000,000
Popular Securities	\$ 4,314,535,000
Oriental Financial Svcs. Corp.	\$ 999,999,999
RD Capital Group	\$ 85,890,000
BBVA Securities Inc.	\$ 561,235,000
UBS Financial Services Inc. of PR	\$ 15,335,836,000
Santander Securities	\$ 5,855,459,000
Merrill Lynch, Pierce, Fenner	\$ 3,030,043,434
Charles Schwab	\$ 577,383,705
Jefferson Pilot	\$ 9,438,000
Raymond James Fin. Services	\$ 56,612,088
Tower Square Securities	\$ 543,000
Axa Advisors	\$ 1,800,000
GWFS Equities Inc	\$ 163,501,917
ING. Financial Advisor Inc.	\$ 89,086,637
ConsultivaSecurities Inc.	\$ 436,680,421
Int. Fin. Solutions	\$ 2,480,097
TOTAL	\$ 31,634,524,298
Fixed Income	\$ 21,504,933,103
Equities	\$ 10,129,591,195

3. Insurance

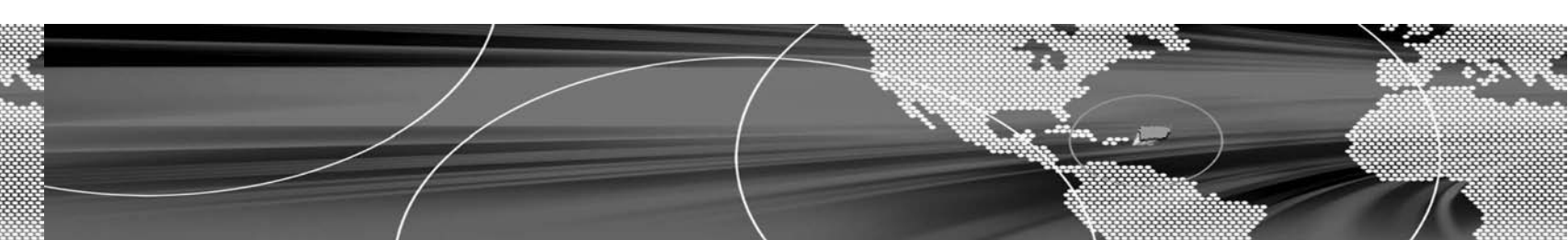
A. Introduction

Puerto Rico is the 3rd largest insurance sector in Latin America and the Caribbean. Total direct premium in 2010 was \$10,318 million. Disability and health, with \$7,791 million in direct premium, was the largest sector; property and casualty generated premiums of \$1,812 million; and life and annuity saw premiums of \$716 million. Of the property and casualty sector, 94% is controlled by domestic insurers and 6% by foreign insurers. In the life and health sector, 55% is controlled by foreign insurers and 45% by domestic insurers. The disability and health sector is controlled entirely by domestic corporations. The market is serviced by 6,238 individuals and 529 corporate intermediaries, licensed either as principal representatives or producers.

B. Office of the Insurance Commissioner of Puerto Rico (OCS) ¹⁷² (its Spanish acronym)

Title 26 of the Puerto Rico Code governs the insurance sector, and it creates the OCS as the sector's regulatory body. As such, the Commissioner can issue and enforce regulations, ruling letters to clarify issues

¹⁷² <http://www.ocs.gobierno.pr/ocspr/>.



not addressed by Code or regulations, and circular letters to provide information or explain expectations. The OCS's general objectives are to protect consumers/insureds, authorize insurers and intermediaries under the provisions of the Code, promote solvency and adequate economic performance of regulated entities, review the business behavior of its licensees, and define acceptable practices among industry participants. The OCS is empowered to issue cease and desist orders, rehabilitation or insolvency orders, subpoenas, and orders for the examination of licensed entities.

The OCS is a member of the National Association of Insurance Commissioners (NAIC) and the Asociación de Supervisores de Seguro de América Latina (ASSAL). The OCS's website contains the Insurance Code and all regulations, ruling letters, and circular letters as well as all relevant application forms and a calendar for compliance forms and due dates.

C. Important Insurance Code Provisions

Under the Insurance Code, the following entities must be licensed by the OCS:

- Risk-bearing entities: authorized insurers and reinsurers, health services organizations, eligible surplus lines insurers, service contract providers, auto clubs, and settlement agreement providers (currently, third-party administrators need not be licensed to operate in Puerto Rico);
- Authorized service companies: rating organizations and advisory organizations;¹⁷³
- Licensed intermediaries: producers, authorized representatives, general agent/manager, surplus lines brokers, authorized persons, life settlement agreement brokers, adjusters and attorneys in fact.¹⁷⁴

The Code provides for the organization of domestic insurers, the authorization of foreign insurers to do business in Puerto Rico, and international insurers to do business outside of Puerto Rico. Those companies that offer either life insurance, P&C insurance, or both, are required by law to affiliate with a guaranty association.¹⁷⁵

Authorized domestic insurers are required to submit management agreements to the Office for approval.

Authorized insurers are subject to a premium tax of 4%, 1% for Annuities considerations. Domestic insurers that maintain their main office in Puerto Rico may request an exemption from the premium tax.

D. Mandatory Insurance Requirements

The Insurance Code establishes a joint underwriting association for vehicular liability insurance, and vehicle owners are required to obtain such insurance upon the issuance or renewal of vehicle licenses.

All medical professionals and institutions are required to obtain mandatory medical malpractice insurance. The code also establishes an excess medical malpractice insurer (SIMED), and all insurers authorized to provide casualty insurance are required to be members.

All employers are required to obtain mandatory workers compensation insurance provided and supervised by the State Insurance Fund. Employers are also required to obtain unemployment insurance provided by the Puerto Rico Department of Labor. Non-occupational unemployment insurance is also required; this coverage is provided by private insurers.

¹⁷³ Chapter 12 of the Insurance Code.

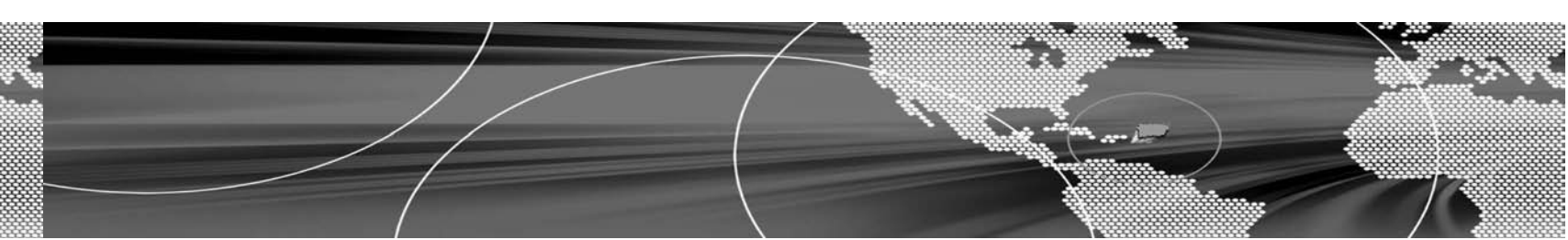
¹⁷⁴ 26 L.P.R.A. §§ 949-953i.

¹⁷⁵ 26 L.P.R.A. §§ 3801-3918.

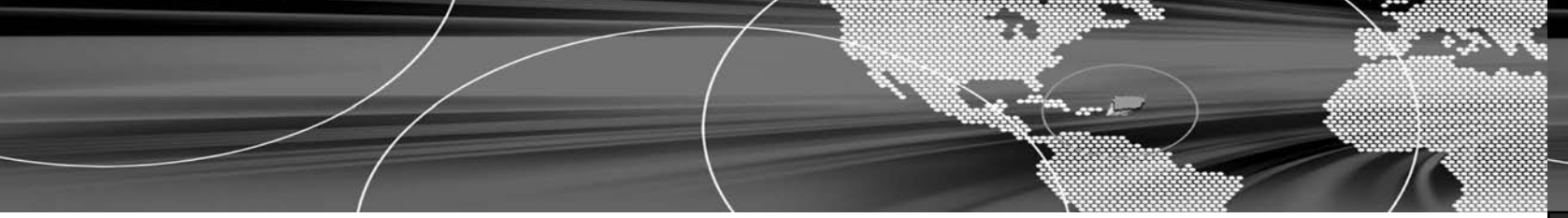
E. Center for International Insurance

Through the Center for International Insurance, the OCI permits international insurers to establish operations in Puerto Rico, including providing direct standard insurance for risks located outside of Puerto Rico and providing reinsurance and surplus lines insurance for risks located in and outside of Puerto Rico. The following classes of international insurers are contemplated:

CLASS	INSURANCE PERMITTED TO TRANSACT	INSURANCE NOT PERMITTED TO TRANSACT	INSURABLE RISKS	CAPITAL REQUIREMENTS & DIVIDEND RESTRICTIONS	FEES & CHARGES
CLASS 1 AUTHORITY “PURE CAPTIVES”	May not insure risks other than those of its parent, affiliated companies and/or controlled unaffiliated businesses	Disability Life High-limit Casualty Property	The sole owner of the International Insurer, any affiliated owner or other affiliate of the International Insurer	Capital & Surplus of \$500,000 in order to issue authorization \$500,000 minimum capital requirement	\$350 general application fee \$750 application fee for Class 1
CLASS 2 AUTHORITY “ASSOCIATION CAPTIVES”	May insure risks of its parent and/or affiliated companies or its members, as well as those arising from their business transactions	Disability Life High-limit Casualty Property	Risks of the owners, whether or not affiliates of the International Insurer, or of any of their respective affiliates; risks that arise from the business transactions of said owners or affiliates, as may be determined by the Commissioner; or any other risk that does not exceed the total of 20% of the net premiums written by the International Insurer	Capital & Surplus of \$750,000 in order to issue authorization \$500,000 minimum capital requirement	\$350 general application fee \$1000 application fee for Class 2



CLASS	INSURANCE PERMITTED TO TRANSACT	INSURANCE NOT PERMITTED TO TRANSACT	INSURABLE RISKS	CAPITAL REQUIREMENTS & DIVIDEND RESTRICTIONS	FEES & CHARGES
CLASS 3 AUTHORITY “PROPERTY- CASUALTY”	May transact business for traditional insurance or reinsurance of foreign risks in property & casualty, except life and disability; also, high-limit casualty and property catastrophe reinsurance	Disability Life High-limit Casualty Property	Insurance premiums for foreign risks. Reinsurance premiums for foreign risks	Capital & Surplus of \$1,500,000 in order to issue authorization \$500,000 minimum capital requirement	\$350 general application fee \$2500 application fee for Class 3
CLASS 4 AUTHORITY “UNRESTRICTED PROPERTY & CASUALTY”	May transact business for traditional insurance and reinsurance foreign risks in property & casualty, including high limit property and casualty reinsurance. Cannot transact life and disability reinsurance	Disability Life	Insurance premiums for foreign risks. Reinsurance premiums for PR and foreign risks	Capital & Surplus of \$100,000,000 in order to issue authorization \$2,000,000 minimum capital requirement	\$350 general application fee \$25,000 application fee for Class 4
CLASS 5 AUTHORITY “UNRESTRICTED LIFE & DISABILITY”	Can transact business for traditional insurance and reinsurance foreign risks in life and disability	Disability Life Re-insurance	Insurance premiums for foreign risks. Reinsurance premiums for PR and foreign risks.	\$750,000 in order to issue authorization \$750,000 minimum capital requirement	\$350 general application fee \$750 application fee for Class 5



As of December 31, 2010, 11 international insurers were organized and authorized by the Office of the Commissioner of Insurance, including 3 Class 1, 6 Class 3, and 2 Class 5.

The recently enacted Act No. 98 of 2011 facilitates the establishment of entities that export insurance and reinsurance services, allowing Puerto Rico to compete with jurisdictions such as Bermuda, Cayman Islands or the State of Vermont, which for years have successfully engaged in promoting this type of activity. The aforementioned legislation fully harmonizes its provisions with the original legislative intent of providing a similar regulatory framework to the one existing in the other jurisdictions which serve as insurance and reinsurance services export centers. Under this new piece of legislation the capital stock of the international insurers and their holding companies, organized under Act No. 399, shall be considered assets located outside of Puerto Rico for purposes of the legislation on estates and donations applicable to non-resident individuals. Act 98 clarifies precisely that concerning the treatment of the benefits payable under life insurance or annuity contracts issued by international insurers to non-resident individuals or corporations and foreign partnerships. It also contractually guarantees, for a determined term, the tax regime that shall apply to the international insurers, since without the stability provided by such guarantee it is very difficult to reach the investment potential which these entities may generate. The amendments in this law also includes certain non-tax provisions which must likewise be added to Chapter 61 of the Insurance Code, all with the purpose that our legislation of the International Insurance Center may become an important tool for the continued development of the financial services sector in Puerto Rico.

Appendix: Useful Contact Information

Government Institutions

Office of the Governor of Puerto Rico

P.O. Box 9020082
San Juan, PR 00902-0082
(787) 721-7000
www.fortaleza.gobierno.pr

Energy Affairs Administration

P.O. Box 41314
San Juan, PR 00940
(787) 332-0914
www.aae.gobierno.pr

Puerto Rico Federal Affairs Administration (PRFAA)

1100 Seventeenth Street
NW Suite 800,
Washington, DC 20036
(202) 778-0710
www.prfaa.com

Commissioner for Credit Union Development

Ave. Muñoz Rivera 998
Edificio Banco Santander
Río Piedras, PR 00926
(787) 763-2097

Administration of Industry and Sport of Racing

Ave. 65 de Infantería Esq.
Calle Rafael Arcelay,
Berwind Shopping Center
Río Piedras, PR
(787) 768-2005
www.adh.gobierno.pr

Office of Permits Management OGP

Centro Gubernamental
Roberto Sánchez Vilella
Edificio Norte, Piso 9
San Juan, PR
(787) 721-8282
www.sip.pr.gov

Land Administration

171 Ave. Chardón,
P.O. Box 363767
San Juan, PR 00936-3767
(787) 753-9300
www.terrenos.gobierno.pr

Public Housing Administration Ave. Barbosa 606

Edif. Juan C. Cordero Piso 9
San Juan, PR 00928-1365
(787) 274-2567
www.vivienda.gobierno.pr

Administración para el Asunto de Menores (ASUME)

C/ Mayagüez #5 Esq. Cidra
Edificio Metro Center
Hato Rey, PR 00917
(787) 767-1500
www.asume.gobierno.pr

Puerto Rico Aqueduct and Sewer Authority (PRASA)

Avenida Barbosa #604
Hato Rey, PR 00917
(787) 620-2482
www.acueductospr.com

Highway and Transportation Authority

P.O. Box 42007
San Juan, PR 00940-2007
(787) 721-8787
www.dtop.gov.pr

Solid Waste Authority Edificio Agencias Ambientales

Sector el 5, Carr. 838
KM 6.3 Piso
Río Piedras, PR 00926
(787) 765-7575
www.ads.gobierno.pr

Puerto Rico Public Buildings Authority (PBA)

Centro Gubernamental Minillas
Edificio Norte Piso 6
Santurce, PR
(787) 722-0101
www.aep.gobierno.pr

Puerto Rico Electric Power Authority (PREPA)

P.O. Box 364267
San Juan, PR 00936-4120
(787) 521-3050
www.aeepr.com

Maritime Transport Authority

100 Calle Playa
Puerto Real,
Fajardo, PR 00740
(787) 860-2005
www.atm.gobierno.pr

Roosevelt Roads Naval Station Lands and Facilities Redevelopment Authority (Portal del Futuro)

Edif. New San Juan
159 Ave. Chardón,
San Juan, PR 00919
(787) 294-0101

Port of the Americas Authority Edif. New San Juan

159 Ave. Chardón,
San Juan, PR 00919
(787) 294-0101
www.portoftheamericas.com

Puerto Rico Ports Authority Calle Lindbergh #64

P.O. Box 362829
San Juan, PR 00936-2829
(787) 723-2260
www.prpa.gobierno.pr

Lands Authority

1309 Ave. Fernández Juncos
Pda. 19 1/2
San Juan, PR 00908-1163a
(787) 721-2120
www.agricultura.gobierno.pr

Puerto Rico Convention Center District Authority

100 Convention Boulevard
San Juan, PR 00907
(787) 722-3309
www.prconventiondistrict.com



Metropolitan Bus Authority (MBA)

37 Ave. De Diego
Bo. Monacillos
Río Piedras, PR
(787) 294-0500

Puerto Rico Industrial, Tourist, Educational, Medical and Environmental Control Facilities Financing Authority (AFICA)

Banco Gubernamental de Fomento
Centro Gubernamental Minillas
Edificio Centro 4to piso
Ave. De Diego Pda. 22
Santurce, PR
(787) 722-2525
www.gdb-pur.com

Puerto Rico Infrastructure Financing Authority (PRIFA)

Edificio Capital Center, 235
Ave. de Diego, Centro Gubernamental
Roberto Sanchez Vilella, Torre Norte
Piso 8
Santurce, PR
(787) 763-5757
www.afi.gobierno.pr

Housing Finance Authority

606 Ave. Barbosa, Piso 3
Edificio Juan C. Cordero
Río Piedras, PR
(787) 765-7577
www.afv.gobierno.pr

Puerto Rico Public-Private Partnerships Authority (PPPA)

Centro Gubernamental
Roberto Sánchez Vilella
Ave. De Diego, Parada 22
Santurce, P.R. 00907
(787) 722-2525
www.p3.gov.pr

Economic Development Bank for Puerto Rico (EDB)

Calle Aldebarán #638,
Urb. Altamira
San Juan, PR
(787) 641-4300

www.bdepr.org

Government Development Bank for Puerto Rico (GDB)

Centro Gubernamental
Roberto Sánchez Vilella
Ave. De Diego, Parada 22
Santurce, P.R. 00907
(787) 722-2525
www.gdb-pur.com

Centro de Recaudación de Ingresos Municipales (CRIM)

Carretera #1 Estatal,
Km. 17.3
San Juan, PR 00919-5387
(787) 625-4000
www.crimpr.net

Puerto Rico Trade Company Edificio New San Juan

159 Ave. Chardón
Hato Rey, PR 00918
(787) 294-010
www.comercioyexportación.com

Puerto Rico Industrial Development Company (PRIDCO)

Ave. Roosevelt 355
Hato Rey, PR 00918
(787) 758-4747
www.pridco.com

National Parks Company of Puerto Rico

Carretera 8838, Km. 6.3
Sector El Cinco
Río Piedras, PR
(787) 622-5200
www.parquesnacionalespr.com

Puerto Rico Tourism Company (PRTC)

Paseo la Princesa
Edificio la Princesa
San Juan, PR 00902
(787) 721-2400
www.seepuertorico.com

Human Resources and Occupational Development Council

Ave. FD Roosevelt 355
Edificio Fomento Industrial Piso 2
San Juan, PR 00918
(787) 754-5504
www.cdorh.org

Puerto Rico Film Industry, Arts & Sciences Development Corporation

Ave. FD Roosevelt 355
Edificio Fomento Industrial Piso 1
San Juan, PR 00918
(787) 758-4747
www.puertoricofilm.com

Agricultural Insurance Corporation

Ave. Hipódromo
Edificio Plaza 20 603
Santurce, PR 00908
(787) 722-2748
www.csa.gobierno.pr

Commonwealth Insurance Fund Corporation

Carr. 21
Esq. Ave. De Diego
Río Piedras, PR
(787) 793-5959
www.cfse.gov.pr/

Puerto Rico Credit Unions Supervision and Insurance Corporation

431 Ave. Ponce de León
Edificio Nacional Plaza, Piso 14
Hato Rey, PR 00919
(787) 622-0957
www.cossec.com

Puerto Rico Fire Department

Edificio Casa Lee 2432
Calle Loíza Esq. Doncella
San Juan, PR
(787) 725-3444
www.bombero.pr.gov



**Department of Agriculture
of Puerto Rico**

1309 Ave. Fernández Juncos
Pda. 18
San Juan, PR 00908-1163a
(787) 721-2120
www.agricultura.gobierno.pr

**Consumer Affairs Department
of Puerto Rico**

Centro Gubernamental Minillas
Edificio Norte, Piso 4
Ave. De Diego
San Juan, PR 00940
(787) 722-7555
www.daco.gobierno.pr

**Department of Economic
Development and Commerce
of Puerto Rico**

Edif. Fomento Industrial
Ave. FD Roosevelt 355, Piso 4
Hato Rey, PR 00918
(787) 765-2900
www.ddec.gobierno.pr

**Department of Education
of Puerto Rico**

Calle Federico Acosta 150
San Juan, PR
(787) 759-2000
www.de.gobierno.pr

Puerto Rico State Department

Calle San José, Esq. San Francisco
Viejo San Juan, PR 00902
(787) 722-2121
www.estado.gobierno.pr

**Treasury Department
of Puerto Rico**

Edificio Indendente Ramírez
Piso 8
Paseo Covadonga
San Juan, PR 00906
(787) 721-2020
www.hacienda.gobierno.pr

**Department of the Family
of Puerto Rico**

Ave. Barbosa # 306
San Juan, PR 00910-1398
(787)294-4900

www.familia.gobierno.pr

**Housing Department
of Puerto Rico**

606 Ave. Barbosa, Piso 10
Edificio Juan C. Cordero
Río Piedras, PR 00928
(787) 274-2527
www.vivienda.gobierno.pr

**Department of Sports and
Recreation of Puerto Rico**

Parada # 27
Parque de Santurce,
San Juan PR 00902-3207
(787) 721-2800
www.drd.gobierno.pr

**Department of Natural and
Environmental Resources
of Puerto Rico**

Carr. 8838, km.6.3
Sector El Cinco, Cupey
Río Piedras, PR
(787) 999-2200
www.drna.gobierno.pr

**Health Department
of Puerto Rico**

Edificio A, Piso 1
Centro Médico
Río Piedras, PR
(787) 765-2929
www.salud.gov.pr

**Department of Transportation
and Public Works of Puerto
Rico**

Centro Gubernamental Minillas
Edificio Sur Pda. 22 Piso 17
Ave. De Diego,
Santurce, PR
(787) 729-1590
www.dtop.gov.pr

**Department of Labor
and Human Resources**

Edificio Prudencio Rivera Martínez,
505 Ave. Muñoz Rivera
Hato Rey, PR

(787) 754-2119

www.dtrh.gobierno.pr

**Puerto Rico Science,
Technology and Research Trust**

Ave. FD Roosevelt 355
Piso 1
Hato Rey, PR 00918
(787) 523-1592
www.prsciencetrust.org

**Integral Fund for Agricultural
Development**

1309 Ave. Fernández Juncos
2ndo Piso,
Santurce, PR 00918
(787) 723-9090
www.agricultura.gobierno.pr

**Statistics Institute
of Puerto Rico**

Calle Quisqueya #57
Segundo Piso
Hato Rey, PR 00917
(787) 993-3336
www.estadisticas.gobierno.pr

Environmental Quality Board

Edificio de Agencias Ambientales
Cruz A. Matos
Urb. San José Industrial Park
1375 Avenida Ponce de León
San Juan, PR 00926-2604
(787) 767-8181
www.jca.gobierno.pr

Puerto Rico Planning Board

Centro Gubernamental Minillas
Edificio Norte, Piso 19
San Juan, PR
(787) 723-6200
www.jp.gobierno.pr



**Telecommunications
Regulation Board**

Ave. Roberto H. Todd
Pda #18
San Juan, PR 00907-3941
(787) 756-0804
www.jrtp.gobierno.pr

**Office of Industrial
Tax Exemption**

Ave. FD Roosevelt 355
Edificio de Fomento Industrial,
Ofic. 105
San Juan, PR 00919
(787) 764-6363

**Office of Human Resources
of the Commonwealth
of Puerto Rico**

Edificio Zequeira, Calle Vela #6
Ave. Ponce de León
Hato Rey, PR 00918
(787) 274-4300
www.ocalarh.pr.gov

**Office of the Commissioner
of Financial Institutions**

1492 Ave. Ponce de León, Suite 600
Santurce, PR 00907-4204
(787) 723-3131
www.ocif.gobierno.pr

**Office of the Commissioner
of Insurance**

B5 Calle Tabonuco Suite 216
Guaynabo, PR 00968-3020
(787) 304-8686
www.ocs.gobierno.pr

**Office of the Resident
Commissioner in Washington**

157 Ave. de la Constitucion
Antiguo Edificio Medicina Tropical
2do piso, Pta. de Tierra
San Juan, PR 00901
(787) 723-6333
www.pierluisi.house.gov

**Office of the Comptroller
of Puerto Rico**

Ave. Ponce de León 105 Pda. 27
San Juan, PR
(787)754-3030
www.ocpr.gov.pr

**Office of Credit Union
Inspector General**

Ave. Ponce de León 954,
Pda. 15 Edificio Miramar Plaza
Piso 3 Oficina 301
(787) 721-2225

Puerto Rico Police Department

Ave. FD Roosevelt 601
Cuartel General
Hato Rey, PR
(787) 793-1234
www.policia.gobierno.pr

Property and Probate Records

Ave. Fernandez Juncos 600
Vistas de San Juan 00907
(787) 723-7560

Academic Institutions

University of Puerto Rico

Carretera Núm. 1, Km. 12.9
Terrenos Estación
Experimental Agrícola, Río Piedras,
PR
(787) 250-0000
www.upr.edu

Inter American University

Apartado 191293
San Juan, PR 00919-1293
(787) 250-1912
www.inter.edu

Sacred Heart University

P.O. Box 12383
San Juan, PR 00914-0383
(787) 728-1515
www.sagrado.edu

Ana G. Méndez

University System

Turabo University
Metropolitan University
East University
P.O. Box 21345
San Juan, PR 00928-1345
(787) 766-1706
www.suagm.edu

Turabo University

P.O. Box 3030
Gurabo, P.R. 00778-3030
Puerto Rico
(787) 743-7979
www.suagm.edu

Metropolitan University

P.O. Box 21150
San Juan, P.R.
00928-1150
(787) 766-1717 • Fax (787) 759-7663
www.suagm.edu

East University

P.O. Box 2010
Carolina, P.R.
00984-2010
(787) 257-7373 • Fax (787) 752-0070
www.suagm.edu

Ponce School of Medicine

P.O. Box 7004,
Ponce, PR 00732-7004
(787) 840-2575
www.psm.edu

**Polytechnic University
of Puerto Rico**

377 Ponce de León
Hato Rey, PR 00198
(787) 622-8000
www.pupr.edu

Pontifical Catholic University

2250 Las Américas Ave.
Suite 564
Ponce, P.R. 00717
(787) 841-2000 • Fax (787) 651-2034
www.pucpr.edu

**Caribbean University**

Forest Hills Urb.
Rd. 167, Km 21.2
Bayamón, P.R. 00959
(787) 999-8244 • Fax (787) 785-0101
www.caribbean.edu

Carlos Albizu University

151 Tanca St.
Old San Juan 00902
(787)725-6500 • Fax (787) 721-7187
www.albizu.edu

**San Juan Bautista School
of Medicine**

P. O. Box 4968
Caguas, PR 00726-4968
(787) 745-3645
www.sanjuanbautista.edu

**American University
of Puerto Rico**

P.O. Box 2037
Bayamón, PR 00960
(787) 621-2835
www.aupr.edu

Non-profit Organizations**Puerto Rico Convention Bureau
San Juan, PR**

Edificio Ochoa
500 Tanca Suite 402
San Juan, PR 00901-1492
(787) 725-2110 • Fax. (787) 725-2133
info@meetpuertorico.com

**Association of Insurance
Companies (ACODESE)**

Edif Banco De Desarrollo Economico
2ndo Piso Oficina 203
Guaynabo PR 00968
(787) 793-4430

**Alliance for the Development
of Puerto Rico**

1510 F.D. Roosevelt Ave.
Triple S Plaza
Suite 6A
Guaynabo, PR 00968
(787) 273-7979

Banks Association

Edif Popular Center
208 Ave Ponce De León
Suite 1014
San Juan PR 00918-1002
(787) 753-8630

Homebuilders Association

250 Ponce De León Ave
202 Citibank Tower
San Juan PR 00918
(787) 781-0025

**General Contractors
Association**

Calle Perseo 501, Oficina 211
Cond. Centro De Altamira
San Juan PR 00920
(787) 781-2200

**Puerto Rico Manufacturer's
Association (PRMA)**

Centro Internacional De Mercadeo
St 165 Torre 2 Suite 702
Guaynabo PR 00968
(787) 653-6300

**Association of Securities
Industry**

American International Plaza –
9th. Floor 250 Muñoz Rivera Ave.
San Juan, PR 00918

**Puerto Rico Shipping
Association**

Zona Portuaria
Muelle B
Carr. 28 #1034
San Juan, PR 00902
(787) 792-9000

**Puerto Rico Products
Association**

Urb El Vedado
406 Calle Capitán Espada
Esq Padre Las Casas
Hato Rey PR 00918

**Broadcasters Association
of Puerto Rico**

1305 Calle Delta
Caparra Terrace
San Juan, PR 00920

**Chamber of Commerce
of Puerto Rico**

100 Tetuán Street
Old San Juan
San Juan PR 00901
(787) 721-6060

United Retailers Center

4to Piso Ave. Munoz Rivera 501
Hato Rey PR 00918
(787) 641-8413

**Association of Architects
and Landscape Architects
of Puerto Rico**

225 Calle Del Parque
San Juan PR 00912
(787) 724-1213

**Certified Public Accounts
Society of Puerto Rico**

Capital Center Edif I
239 Arterial Hostos
Suite 1401
San Juan PR 00918 1477

**College of Engineers
and Surveyors**

Urb. Roosevelt
500 Calle Antolin Nín Martínez
San Juan, PR 00918
(787) 758-2250

**Concilio de Exportaciones
de Puerto Rico**

Pan American Grain
Calle Claudie #9
Esq Beatriz
Parque Industrial Amelia
Guaynabo PR 00968
(787) 273-6100

**Internet Society of Puerto Rico
The Atrium Office Center**

530 Avenida De La Constitución
San Juan PR 00901

**Chamber of Marketing, Industry
and Food Distribution (MIDA)**

Centro Internacional De Mercadeo
90 Carr. 166
Suite 501 Torre 2
Guyanabo PR 00968

**Pharmaceutical Industry
Association**

City View Plaza
Suite 407
Guaynabo PR 00968

PR Hotel & Tourism (PRHTA)

165 Ponce De León Ave
Suite 301
San Juan PR 00917-1233
(787) 758-8001

**Society of Human
Resources (SHRM)**

Capital Center Plaza
Suite 504 - Torre Sur
Arterial Hostos 239
Hato Rey PR 00918

**Southwestern Industrial
Association (SWIA)**

La Quinta Industrial Park #177
Bo. Balboa
Mayagüez, PR 00680

Municipalities

Adjuntas

Apartado 1009
Adjuntas, PR 00601-1009
Tel: (787) 829-3310
Fax: (787) 829-0686

Aguada

Apartado 517
Aguada, PR 00602-0517
Tel: (787) 868-0904
Fax: (787) 868-4600

Aguadilla

Apartado 1008
Aguadilla, P.R. 00605
Tel: (787) 882-5435
Fax: (787) 882-5435

Aguas Buenas

P. O. Box 128
Aguas Buenas, PR 00703-0128
Tel: (787) 732-8621
Fax: (787) 732-2344

Aibonito

Apartado 2004
Aibonito, PR 00705-2005
Tel: (787) 735-9209
Fax: (787) 735-3237

Añasco

P. O. Box 1385
Añasco, PR 00610
Tel: (787) 826-3100
Fax: (787) 826-7000

Arroyo

Box 477
Arroyo, P.R. 00714
Tel: (787) 839-3500
Fax: (787) 271-1171

Arecibo

Apartado 1086
Arecibo, PR 00613-1086
Tel: (787) 878-5228
Fax: (787) 880-6033

Barceloneta

P. O. Box 2049
Barceloneta, PR 00617-2049
Tel: (787) 846-3400
Fax: (787) 846-0089

Barranquitas

Apartado 250
Barranquitas, P.R. 00794
Tel: (787) 857-2065
Fax: (787) 857-4946

Bayamón

Apartado 1588
Bayamón, P.R. 00960
Tel: (787) 269-7733
Fax: (787) 798-6485

Cabo Rojo

Apartado 1308
Cabo Rojo, P.R. 00623
Tel: (787) 851-0300
Fax: (787) 851-3388

Caguas

P. O. Box 907
Caguas, PR 00726-0907
Tel: (787) 286-1034 direct line
Tel: (787) 743-3400 / (787) 744-8833
Fax: (787) 746-6562

Camuy

Apartado 539
Camuy, P.R. 00627
Tel: (787) 898-2160
Fax: (787) 262-7571

Canóvanas

Apartado 1612
Canóvanas, P.R. 00729
Tel: (787) 957-1159
Fax: (787) 256-7269

Carolina

P. O. Box 8
Carolina, PR 00984-0008
Tel: (787) 757-2626
Fax: (787) 750-5330

Cataño

P. O. Box 428
Cataño, PR 00963-0428
Tel: (787) 788-0404
Fax: (787) 993-6993

Cayey

P. O. Box 371330
Cayey, PR 00737-1330
Tel: (787) 738-3211
Tel: (787) 738-5156
Tel: (787) 738-3131
Tel: (787) 825-1150
Fax: (787) 738-7865
Fax: (787) 263-5829

Ceiba

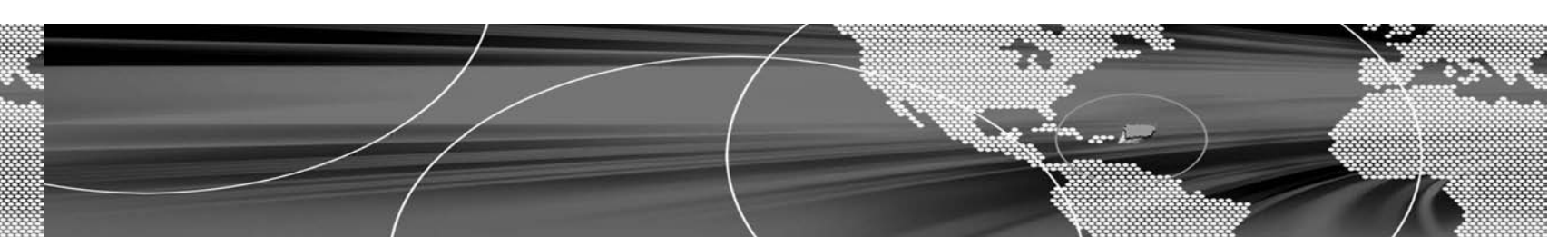
Apartado 224
Ceiba, PR 00735
Tel: (787) 885-2180
Fax: (787) 885-5137

Ciales

Apartado 1408
Ciales, P.R. 00638
Tel: (787) 871-3500
Fax: (787) 871-3743

Cidra

Apartado 729
Cidra, P.R. 00739
Tel: (787) 739-4041
Fax: (787) 739-5118

**Coamo**

P. O. Box 1875
Coamo, PR 00769-1875
Tel: (787) 825-1150
Fax: (787) 825-6502

Comerio

P. O. Box 1108
Comerio, PR 00782-1108
Tel: (787) 875-3445
Fax: (787) 875-5372
Fax: (787) 875-0660

Corozal

Calle Cervantes #9
Corozal, P.R. 00783
Tel: (787) 802-0200
Fax: (787) 859-2268

Culebra

Apartado 189
Culebra, PR 00775-0189
Tel: (787) 742-3577
Fax: (787) 742-0111

Dorado

P. O. Box 588
Dorado, PR 00646-0588
Tel: (787) 796-1230
Fax: (787) 821-0092

Fajardo

P. O. Box 865
Fajardo, P.R. 00738
Tel: (787) 863-0429
Fax: (787) 863-0393

Florida

Apartado 1168
Florida, P.R. 00650
Tel: (787) 822-2672
Fax: (787) 822-1524

Guánica

P. O. Box 785
Guánica, PR 00653-0785
Tel: (787) 821-1777
Fax: (787) 821-0092

Guayanilla

P. O. Box 560550
Guayanilla, PR 00656-0560
Tel: (787) 835-2660
Tel: (787) 835-2360
Fax: (787) 835-3713

Guayama

Apartado 360
Guayama, PR 00785-0360
Tel: (787) 864-1830
Fax: (787) 864-5070

Guaynabo

Apartado 7885
Guaynabo, P.R. 00970
Tel: (787) 720-4040
Fax: (787) 790-0707

Gurabo

Apartado 320
Gurabo, PR 00778-0320
Tel: (787) 737-8411
Fax: (787) 737-5250

Hatillo

P. O. Box 8
Hatillo, PR 00659-0008
Tel: (787) 898-3840
Fax: (787) 898-2295

Hormigueros

P. O. Box 97
Hormigueros, PR 00660-0097
Tel: (787) 849-2515
Fax: (787) 849-1290
Fax: (787) 849-1251

Humacao

P. O. Box 178
Humacao, PR 00792-0178
Tel: (787) 852-3066
Tel: (787) 852-2000
Fax: (787) 850-6767

Isabela

P. O. Box 507
Isabela, PR 00662-0507
Tel: (787) 872-2100
Fax: (787) 830-8045

Jayuya

P. O. Box 488
Jayuya, PR 00664-0488
Tel: (787) 828-0900
Fax: (787) 828-1033

Juana Díaz

P. O. Box 1409
Juana Díaz, PR 00795
Tel: (787) 837-2185
Fax: (787) 837-2420

Juncos

P. O. Box 1706
Juncos, PR 00777-1708
Tel: (787) 734-0335
Fax: (787) 734-6866

Lajas

Apartado 910
Lajas, PR 00667-0910
Tel: (787) 899-1450
Fax: (787) 899-1790

Lares

Apartado 218
Lares, PR 00669-0218
Tel: (787) 897-6548
Fax: (787) 897-7510

Las Marías

Apartado 366
Las Marías, P.R. 00670
Tel: (787) 827-3845
Fax: (787) 827-2021

Las Piedras

P. O. Box 68
Las Piedras, P.R. 00771
Tel: (787) 733-4595
Fax: (787) 733-0165

Loíza

Apartado 508
Loíza, P.R. 00772
Tel: (787) 886-2445
Fax: (787) 876-2980

Luquillo

Apartado 1012
Luquillo, P.R. 00773
Tel: (787) 889-0404
Fax: (787) 889-8260

**Manatí**

#10 Quiñonez
Manatí, P.R. 00674
Tel: (787) 884-6832
Fax: (787) 854-2274

Maricao

Apartado 837
Maricao, P.R. 00606
Tel: (787) 838-2290
Fax: (787) 838-2520

Maunabo

P. O. Box 8
Maunabo, PR 00707-0008
Tel:(787) 861-0825
Fax: (787) 861-1165
Fax: (787) 861-1124

Mayagüez

P. O. Box 447
Mayagüez, PR 00681-0447
Tel: (787) 834-8585
Fax: (787) 265-2270

Moca

Apartado 1571
Moca, P.R. 00676
Tel: (787) 877-2006
Fax: (787) 877-3560

Morovis

Apartado 655
Morovis, PR 00687-0655
Tel: (787) 862-2155
Fax: (787) 862-2421

Naguabo

Po Box 40
Naguabo, PR 00718
Tel: (787) 874-3580
Fax: (787) 874-1144

Naranjito

Apartado 53
Naranjito, PR 00719-0053
Tel: (787) 869-2040

Orocovis

P. O. Box 2106
Orocovis, P.R. 00720
Tel: (787) 867-5060
Fax: (787) 867-0455

Patillas

Apartado 698
Patillas, P.R. 00723
Tel: (787) 839-1250
Fax: (787) 271-4618

Peñuelas

P. O. Box 10
Peñuelas, PR 00624
Tel: (787) 836-1218
Fax: (787) 836-2191
Fax: (787) 836-1136

Ponce

Apartado 331709
Ponce, PR 00799-1709
Tel: (787) 284-4141
Fax: (787) 290-4165

Quebradillas

P. O. Box 1544
Quebradillas, PR 00678-1544
Tel: (787) 895-1070
Fax: (787) 895-7924
Fax: (787) 895-7415

Rincón

P. O. Box 97
Rincón, PR 00677-0097
Tel: (787) 823-2180
Tel: (787) 823-2050
Tel: (787) 823-2010
Fax: (787) 823-3240

Río Grande

P. O. Box 847
Río Grande, PR 00745
Tel:(787) 887-2370
Fax: (787) 888-1515

Sabana Grande

P. O. Box 356
Sabana Grande, PR 00637-0356
Tel: (787) 873-2060
Fax: (787) 873-2590

Salinas

Apartado 1149
Salinas, PR 00751
Tel: (787) 824-3060
Fax: (787) 824-0017

San Germán

P. O. Box 85
San Germán, PR 00683
Tel: (787) 892-3500
Fax: (787) 892-1114

San Juan

Apartado 433
San Juan, P.R. 00901
Tel: (787) 480-4000
Fax: (787) 725-5674

San Lorenzo

P. O. Box 1289
San Lorenzo, PR 00754
Tel: (787) 736-2541
Fax: (787) 736-0655
Fax: (787) 736-2818

San Sebastián

Apartado 1603
San Sebastian, P.R. 00685
Tel: 280-2485
Fax: 896-8363

Santa Isabel

Apartado 725
Santa Isabel, PR 00757-0725
Tel: (787) 219-2009
Fax: (787) 845-2027

Toa Alta

Apartado 82
Toa Alta, PR 00954
Tel: (787) 870-7440
Fax: (787) 870-7470

Toa Baja

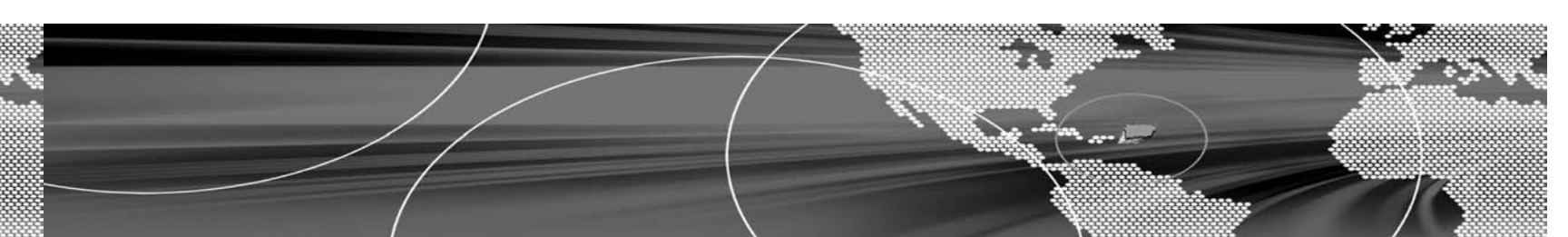
Apartado 2359
Toa Baja, PR 00951
Tel: (787) 261-7922
Fax: (787) 784-3230

Trujillo Alto

P. O. Box 1869
Trujillo Alto, PR 00977-1569
Tel:(787) 761-0172
Fax: (787) 292-0400

Utua

Apartado 190
Utua, P.R. 00641
Tel: (787) 894-1040
Fax: (787) 894-0920

**Vega Alta**

Apartado 1390
Vega Alta, PR 00692
Tel: (787) 883-5244
Fax: 270-3368

Vega Baja

Apartado 4555
Vega Baja, PR 00693-4555
Tel: (787) 807-1199
fax: (787) 855-3767

Vieques

Calle Carlos Lebrum #449
Vieques, PR 00765
Tel: (787) 741-5051

Villalba

P. O. Box 1506
Villalba, PR 00766-1506
Tel: (787) 847-2500
Fax: (787) 847-1528

Yabucoa

Apartado 97
Yabucoa, P.R. 00767
Tel: (787) 893-3000
Fax: (787) 893-8140

Yauco

Apartado 01
Yauco, P.R. 00698
Tel: (787) 856-1345
Fax: (787) 856-0105

**Puerto Rico External
Commercial Offices****Oficina Comercial
de Puerto Rico
en República Dominicana**

Ave. Abraham Lincoln
Esq. Gustavo Mejía Ricart,
Torre Altimore I,
Ofi. 603, Piso 6
Santo Domingo, RD
1 (809) 549-6362

**Oficina Comercial
de Puerto Rico en Panamá**

Ave. Balboa, Edif. Balboa Plaza,
Ofi. 503 Piso 5
Ciudad de Panamá, R. de Panamá
011 (507) 269-2412

PRIDCO – New York

135 West 50th St.,
22nd floor,
New York, NY 10020
(212) 333-0367

Tourism Office – Argentina

Guatemala 4718
P 2 Depto. C
Buenos Aires, Argentina
011 -54 -11-4831-3741

Tourism Office – México

Cmdte #70,
Col. Nueva Anzuares,
CP 11590
México DF, México
011-52-1-55-5209-8519

Tourism Office – Brazil

Rua Aperana,
Apt. 104, Leblon
Río de Janeiro, Brasil 22450-190
011-55-21-9602-6556

Tourism Office – Colombia

Calle 82 No 14^a-17
Ofic. 308, Colombia
011-57-1610-0830

Tourism Office – New York

135 West 50th St.,
22nd floor,
New York, NY 10020
(212) 586-6262

Tourism Office – Spain

C/ Serrano 1-2^a 28001
Madrid, España
011-34-91-577-5260

Tourism Office – Germany

Sckennkendorf
Str. 65187
Wiesbaden, Germany
011-49-611-2676-760