



Puerto Rico Business Playbook

**Technology & Information and Communications
Technology (ICT) Activities**

Updated September 2022





Table of Contents

- 03 Why Puerto Rico?
- 05 Overview
- 10 Next Steps
- 17 Contacts



Puerto Rico is an emerging and buzzing tech hub that attracts game-changing tech entrepreneurs from around the world. Innovators on the island are rolling out new tools for every sector, including finance, health, energy, public administration, and education, among many others. Some technologies, like blockchain and artificial intelligence (AI), promise to completely change how many of these industries function. Technology represents the changes imminent in the 4th industrial revolution, and proper implementation and growth of these tools will be critical to Puerto Rico's future economic diversity and development.

Puerto Rico has become recognized globally as a preferred destination for blockchain pioneers and innovators. Favorable incentives, high-speed connectivity, and impressive quality of life combine to create a productive environment for growth-focused businesses. The large export volume of goods and services provides market opportunities

in all applications of blockchain, IoT, cybersecurity, and data management. Incubators, accelerators, and co-working spaces are ideal for solopreneurs and start-ups, while tech giants like Cisco, Oracle, Hewlett-Packard, and Microsoft are comfortably settled in dedicated sites. Tech infrastructure supports both up-and-comers and established tech companies, with island-wide 5G broadband access, ample wireless connectivity, more than 30 Internet providers for homes and businesses, established LoRa network capabilities, and broad satellite connections.

With daily flights to prime U.S. cities, access to important business networks is seamless. The new transshipment status opens distribution markets, and island-wide ICT infrastructure connects businesses and remote workers with customers and partners anywhere in the world.

Key competitive elements include:

- Unparalleled U.S. based tax climate and incentives for individuals, export businesses, and tech talent.
- Attractive quality of life, cost of living, geographic access, and cultural vibrancy.
- High Information and Communications Technology (ICT) connectivity with robust 5G hubs.
- Existing industry with high demand for blockchain, artificial intelligence, IoT, cybersecurity, and connected systems innovations.
- Diverse crypto and blockchain communities active in global collaboration and world-class events.

About this document

This document is a guide to Tech and ICT activities in Puerto Rico. It contains an overview of these **activities that qualify for special incentives from the Government of Puerto Rico** under the [Puerto Rico Incentives Code, Act 60-2019](#) and provides a brief look at the agencies that award these incentives, and the processes to request them. It is key to note that once granted, the incentives may be made retroactive to the filing date of the application.

Landscape

[Chapter 3](#) of Act 60-2019 details the eligible services that qualify as Export Services and may benefit from preferential tax rates. These include the export of technology, scientific, information systems, engineering, and other consulting services, to clients anywhere outside Puerto Rico, among others. There are additional incentives under Act 60 for individuals who relocate to Puerto Rico and for hard-to-recruit professionals.

Act 60 also provides special incentives for qualifying Research and Development (R&D) activities. According to the Act, R&D means any activity that is performed to advance knowledge or capacity by resolving a Scientific or Technical Uncertainty in a science or technology field. The new knowledge resulting from R&D should be useful in the creation of new products or their improvement, processes, or services of commercial value. “Scientific or Technical Uncertainty” refers to those problems that cannot be immediately solved by a subject matter expert without having to apply the scientific method (problem definition, state of knowledge of the problem, hypothesis definition, design of experiments, observation, results, or conclusions, and recording of findings). Incentives for this type of qualifying activity include receiving tax credits for up to 50% of the amount of money invested in the R&D processes.

Some highlights are:

- Opportunity to use tax incentives to support use and sale of utility tokens as software.
- On-island networks like the [CoinAgenda Conference](#), [Puerto Rico Crypto Meetup](#), and the [Puerto Rico Blockchain Trade Association](#) provide discussion forums with global partners.
- Heavy concentrations of industries with high security, redundancy, and efficiency needs represent a limitless opportunity.
- Vibrant culture, rich historic landscape, and ideal tropical environs allow for business in paradise.
- Puerto Rico ranks #2 in Latin America and the Caribbean for AI, #1 in intellectual property protections, #1 in overall innovation capacity, #2 in rate of digital skills, and #1 in rate of companies using digital tools.

We're here to help

Invest Puerto Rico is the official nonprofit, private company tasked with attracting business and capital investment to Puerto Rico. Our team includes experts in Marketing, Research and Strategy, and Business Development, and we offer concierge services free of charge to companies and investors setting up operations on the island. From basic orientation and connections to local stakeholders, to finding real estate, talent, service providers, and navigating the incentives application process, we are here to assist you every step of the way.



Let's Get Started!



Overview

The main objective of the **Innovation and Technology Industry** is to help transform nearly every sector of the economy with the creation of products and services. Puerto Rico's incentives program promotes this objective by encouraging investment in the development of new products and services, and the implementation of high technology in Blockchain, AI, the Internet of things, and others.

This industry is equipped to facilitate the different needs of companies at any stage, from start-ups to global entities. Special incentives for the tech industry include tax exemption grants that award preferential corporate tax rates, as well as tax credits when R&D services are performed as part of the tech services. These tax incentives are overseen and managed by the **Department of Economic Development and Commerce (DEDC)**, through the **Office of Incentives**, where applications are received and evaluated.

When preparing to request incentives from the Government of Puerto Rico, it is highly recommended that you work with local legal and tax professionals who are knowledgeable about Act 60 and the application process. The Invest Puerto Rico team can provide you with a list of service providers for your consideration.

Eligibility for tax exemption decrees (preferential tax rates) can be verified directly with the Office of Incentives. In the specific case of R&D tax credits, the DEDC's Senior Business Development Specialist is tasked with identifying the projects that qualify for these incentives, guiding clients in the application process, and certifying the eligibility of proposed activities through Technical Advisory Opinions.

Available Incentives

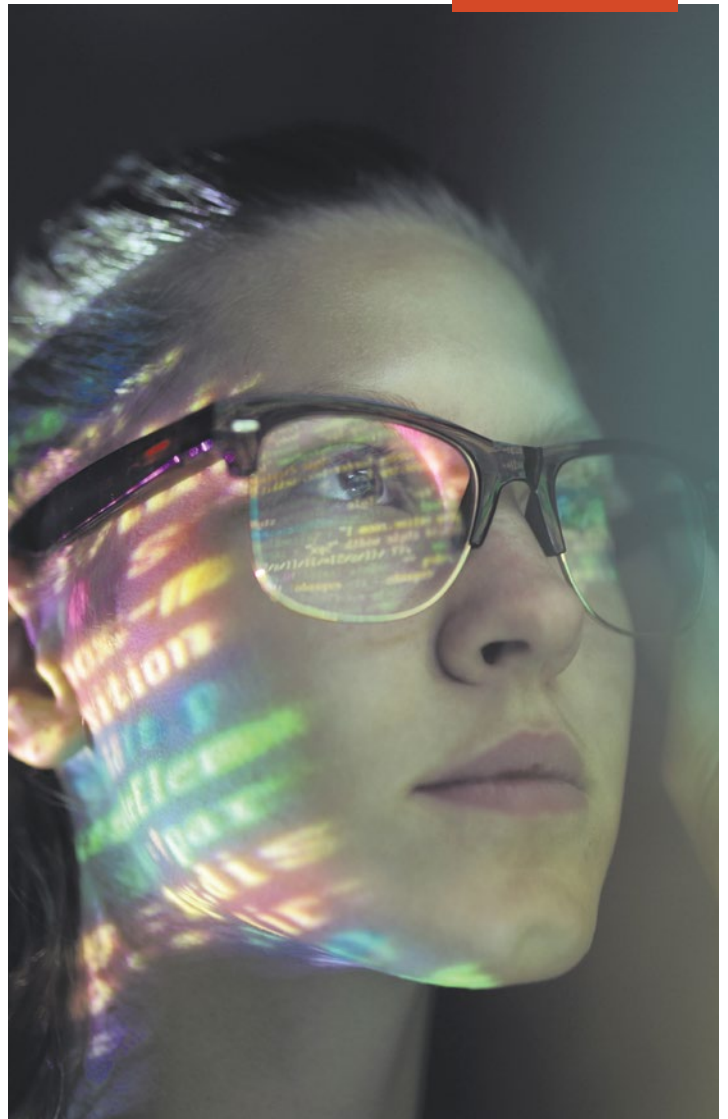
Tax Exemption for the Export of Goods and Services

Chapter 3 of [Act 60-2019](#) details the eligible services that qualify as Export Services and may benefit from these preferential tax rates when provided from Puerto Rico to clients anywhere else in the world:

- 4% corporate income tax rate
- 0% rate on distribution of dividends
- 75% exemption on property and construction taxes
- 50% exemption on municipal taxes
- 100% exemption on dividends or profit distributions to shareholders, partners, or members
- 75% exemption from property taxes for businesses with a business volume of more than \$3 million; and 100% exemption for five years for businesses with a business volume of less than \$3 million, and 75% thereafter

Eligible export activities include, but are not limited to:

- Research & Development
- Technologic, scientific, information systems, engineering, and other consulting services
- Production of engineering and architectural blueprints and designs
- Software development
- Voice, video, audio, & data telecommunication services for persons outside Puerto Rico



- Call centers
- Shared service centers
- Educational and training services
- Telemedicine
- Financial services
- Commercial distribution of products manufactured in Puerto Rico to outside markets
- Assembly, bottling and packaging of products for markets outside of Puerto Rico
- Distribution in physical form, network, cloud computing or blockchain, and income derived from program licensing, subscription, or service fees (SaaS)

Tax Exemption for R&D as an Industrial Activity

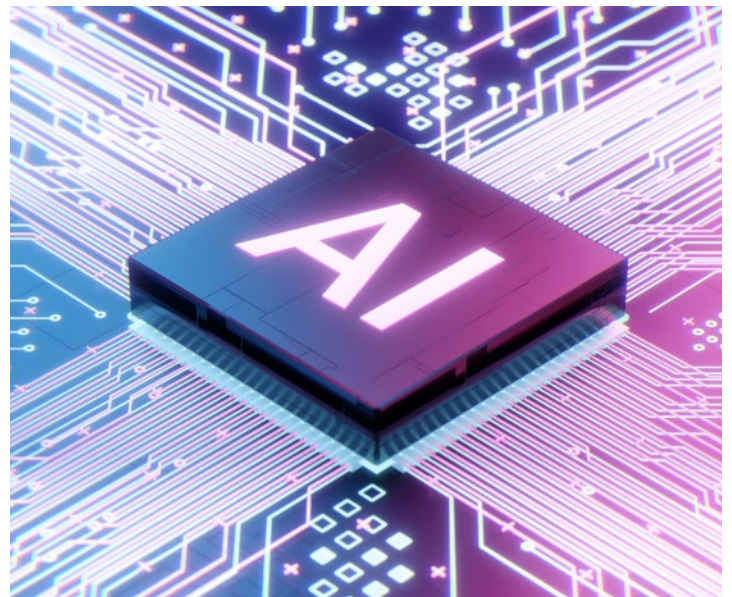
Act 60-2019 provides the same preferential rates to businesses performing R&D as an eligible science and technology activity, including:

- Scientific or industrial R&D of new products or services or industrial processes
- Recycling
- Research, development, manufacturing, transportation, launch, and operation from Puerto Rico of satellites and development service centers for data processing and storage, excluding telephony, broadcasting, and broadcasting operations
- Licensing of intangible property¹
- Development of video games
- Software or applications
 - The mere development of software, industrial processes, products, services, or video games does not generate taxable income and is therefore not per se an eligible exempt activity. The Act provides tax exemption for activities that generate taxable revenue from the commercial implementation of those developments. The R&D mentioned among the eligible activities is therefore contract R&D, where the beneficiary of a tax exemption decree under Act 60-2019 provides R&D services to third parties and receives revenue from providing that service. The business models may involve:
 - Distribution in physical form, on a cybernetic network, cloud computing, or blockchain
 - Revenues must come from licensing, program subscriptions and/or service charges

- The following business models are considered ineligible:
 - » Online content publishing companies and their search devices
 - » Company that uses technology to provide a service and does not have the human resources for the development of new products
 - » Company whose primary income is generated from advertising and marketing to Puerto Rico's market
 - » The software has no methodology to carry out a valuable task
 - » Software entailing games of chance whose income is generated from bets

Tax Exemption for Pioneering Novel Activities

Act 60-2019 provides an income tax rate between 1% and 4% for businesses manufacturing products in Puerto Rico using pioneering innovative technologies. This rate can be reduced to 0% if the technology is created or developed in Puerto Rico.



¹Intangible Property means patents, inventions, formulas, processes, designs, patterns, know-how, copyrights, trade secrets, literary, musical or artistic compositions, trademarks, seals, trade names, brand names, franchises, licenses, contracts, methods, programs, systems, procedures, capital gains, campaigns, surveys, studies, tests, trials, projections, estimates, customer lists, technical data or any other similar property.

Tax Credit for Investment in Research & Development Activities

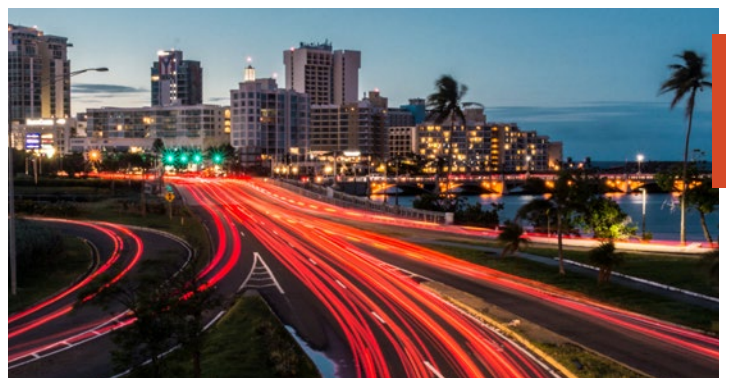
Act 60-2019 provides a tax credit of up to 50% of the eligible investment in industrial R&D activities performed by exempt businesses.

- Exempt Businesses may apply for a transferable tax credit equal to up to 50% of Special Eligible Investments in R&D.
- The transferable tax credit can be used 100% towards the Exempt Business' own tax liability, transferred to affiliates, or sold to third party buyers of tax credits to use against their Puerto Rico tax liability (Any money generated from the sale of R&D tax credits must be reinvested into R&D)
- The tax credit may be used as follows:
 - 50% on the tax return corresponding to the year in which the Special Eligible Investment was made
 - 50% in any subsequent years until exhausted
- Tax credits sell for an average of 90% of face value, depending on:
 - Demand and supply
 - Taxable year of the credit
 - Time in the taxable year the credit is being sold
 - Amount of credit to be sold
- There is no recapture against bona fide buyers
- Tax credits may be used as a financing source of repayment or collateral

R&D tax credit eligible activities include:

- Experimental activities that resolve a scientific or technological uncertainty and result in the generation of new knowledge to achieve a scientific or technological advance, including:
 - Prototyping or experimental manufacturing
 - Testing activities of a prototype developed through R&D to determine if its design is appropriate prior to its release or use on a commercial scale

- Design activities, creating or improving products, or creating new processes
- Development of new processes to establish the capability to perform an eligible activity of an Exempt Business under Act 60
- The following provision can only apply to companies with a tax exemption decree (grant) for providing R&D activities as a service:
 - Research and development processes carried out under contract for the benefit of a third party (contract research) and R&D to improve industrial processes (continuous improvement) are excluded, except:
 - When related to existing product development necessary to expand market share or to penetrate new commercial or geographic markets; or
 - When necessary to add new functionalities to software
- Scientific or technological advance, including:
 - Scientific planning activities to identify the scientific or technological uncertainty, assess the scientific or technological feasibility, define the scientific or technological objectives, and plan the detailed resource and labor management of an R&D project
 - Planning activities include the requirements gathering, analysis and design phases in the Software Development Life Cycle or information coding, among others



- The “Software Development Life Cycle” comprises the following phases:
 - » Gathering of Requirements and Analysis (Incidental Activity)
 - » Design (Incidental Activity)
 - » Code Development and Implementation (Experimental Activity)
 - » Testing (Experimental Activity)
 - » Release (Experimental Activity)
 - » Maintenance
 - » Maintenance or continuous improvement is considered an Eligible Activity (Experimental)
 - + Only when related to existing product development required to expand market share or to penetrate new commercial or geographic markets or when necessary to add new functionalities to software
- The primary areas of software development that qualify for the R&D tax credit are:
 - Data processing
 - Data storage
 - Interface between systems
 - Interface between systems and user
- The development of non-trivial algorithms, mathematical treatments, or the study and design of new code (new processes, methods, or computer-enabled systems created to perform a valuable task) is required.
 - The adoption of existing codes, algorithms, or mathematical formulas is not considered R&D, except in those cases when the adaptation is so complex as to be considered a scientific uncertainty as such and that it requires study and design.

Cash Grants to Promote Innovative Small and Medium Enterprises

Section 5010.01 of Act 60-2019 creates the Economic Development Fund, to provide an incentive to small and medium-sized companies that invest in innovation through R&D. The yearly cash grant cycle provides up to \$100,000 for eligible investments in innovation by small and medium enterprises. These grants are also managed by the DEDC.



Next Steps



Step 1: Get Started

Contact Invest Puerto Rico

As part of Invest Puerto Rico's commitment to bolstering the island's role as a leading hub of the knowledge economy, we are making significant strides in this endeavor: bringing together the brightest minds from academia and the public and private sectors. We encourage you to start by contacting the Business Development team at Invest Puerto Rico. Our role is to help you and your company access the right resources, in an expedited manner, to establish your commercial and industrial operations on the island. We will learn your needs and liaise you with the people, agencies, providers, and resources to start this journey on the right track. We help companies and investors create jobs and capital investment on the island, and our services are free of charge to you and your company. From navigating the incentives process to finding the ideal real estate, workforce, and local partners, we have you covered.

Engage Service Providers

Request a Service Providers list from Invest Puerto Rico to select your local experts in matters including legal, tax, real estate, workforce, associations, Internet companies, etc. While Invest Puerto Rico cannot recommend a specific partner, we can assure you that providers on our list are experts in their field and we will help you make the initial connections to them or any other provider in Puerto Rico that can assist you and your business while getting established locally. Even if your company has a great legal and tax team, our recommendation is you get the advice of a local provider or firm, to be sure you structure your company the correct way, get all the necessary local permits and licenses, and maximize your benefits under the Puerto Rico Incentives Code.

Liaise with Stakeholders

Puerto Rico is known for the warmth of our people, so do not be shy and tap into our people power for more than just the right workforce. The island has many groups and associations that bring together brilliant minds, key stakeholders, doers, makers, and a wealth of knowledge you can leverage to advance your business in Puerto Rico. Relationships are important, and Invest Puerto Rico is here to help you create them. Some key partners you may want to reach out to are the [Puerto Rico Science, Technology & Research Trust](#); the [Puerto Rico Energy Center](#), the [Puerto Rico IT Cluster \(PRITC\)](#), the [Information Systems Security Association \(ISSA\)](#), the [Industry University Research Center \(INDUNIV\)](#), and the regional accelerator [Parallel 18](#), among many others. Our team can recommend groups and associations and we can also facilitate connections to others you may want to engage with. Wherever possible, we recommend you work with local suppliers and providers, to have a larger and more impactful economic effect on the island through your business.

After you have all the right information and have decided on the adequate structure for your business, you will need to register your company on the island, be sure to meet industry-specific requirements, identify real estate, apply for incentives, and find your workforce.



Step 2: Register Your Business

1. Register your business with the Puerto Rico Department of State. You can do this online [here](#) and will need to pay the applicable fee with a credit card.
2. For Tax purposes, if your business does not already have and EIN from the US Internal Revenue Service (IRS) please request one by filling out Form SS-4, available online [here](#).
3. For Tax purposes, please register EIN with the Puerto Rico Department of Treasury by filling out Form SC-4809, available online [here](#).
4. Register in the Merchant Registration of the Treasury Department [here](#). This is similar to a seller's permit in the United States mainland.
5. Employers are required to register with the Department of Labor and Human Resources [here](#) and with the State Insurance Fund Corporation [here](#).
6. All businesses of all industry sectors must obtain a use permit and other basic licenses that may apply, such as a sanitary license, fire prevention certificate, construction permits, and others, available on the [Single Business Portal \(SBP\)](#).
 - A. Access the SBP and log in to create your unique profile from which to request the Single Permit and others that may apply.

Registration Steps



Step 3: Real Estate

Need a large building or a smaller Class-A office complex? Do you want to lease or buy a space? The latest technology, machinery, innovation, and expertly skilled talent... all of these are available to you in Puerto Rico. Our Business Development team will assess your real estate needs and, through our network of partners, identify potential sites for your Tech or ICT activities. We will present options to you and coordinate conversations and site inspections, as well as facilitate access to details regarding permits, licenses, and other key components.



REQUIREMENTS



Individual

- User Name / Email
- Full Name
- Date of Birth
- Gender
- Civil Status
- Phone
- Address
- City
- State
- Zip Code
- Social Security Number



Corporation

- Employer ID Number
- Company Legal Name
- Relationship with the Corporation
- Address
- City
- State
- Zip Code
- Mailing Address
- Classification
- Additional Email
- Phone

Step 4: Apply for Incentives

1. Request a Merchant's Registration Certificate from the Puerto Rico Department of Treasury's electronic Internal Revenue Unified System, **SURI**, at least 30 days prior to commencing operations. This certificate will confirm if the merchant is considered a withholding agent.
 - A. Within 30 days after the issue date of the Merchant's Registration Certificate, register for the IVU Loto oversight program by calling + 1 (787) 200-7900, option number 4. The results from the questionnaire will determine if your business is eligible for the installation and use of an IVU fiscal terminal (for purposes of sales and use tax).



2. Login to the Incentives Portal to begin the Act 60 application process.
 - A. Click here to access the [Incentives Portal](#)
 - B. Create a unique profile by following the steps detailed in Step 2, above.
 - I. The unique profile is a digital tool that, through your Social Security Number, federal identifier and/or Employer Identifier Number, will allow you to create an exclusive profile for your permitting and incentive applications in Puerto Rico.
 - C. After completing and submitting the application, you will need to pay a \$750.00 filing fee* for processing. Once the application has been duly reviewed and approved by the concerning agencies, an acceptance fee of \$50.00* will be required to receive the tax exemption decree (contract between the Government of Puerto Rico and the entity that is granted the exemption).
 - D. Tax incentive grants incur an obligation to present Annual Reports to the Office of Incentives. The filing of said Annual Reports will also be made through the Incentives Portal and will incur a \$300.00 filing fee*.

When applying for incentives, your business must be in good standing with the government. Required documents when applying for local incentives are:

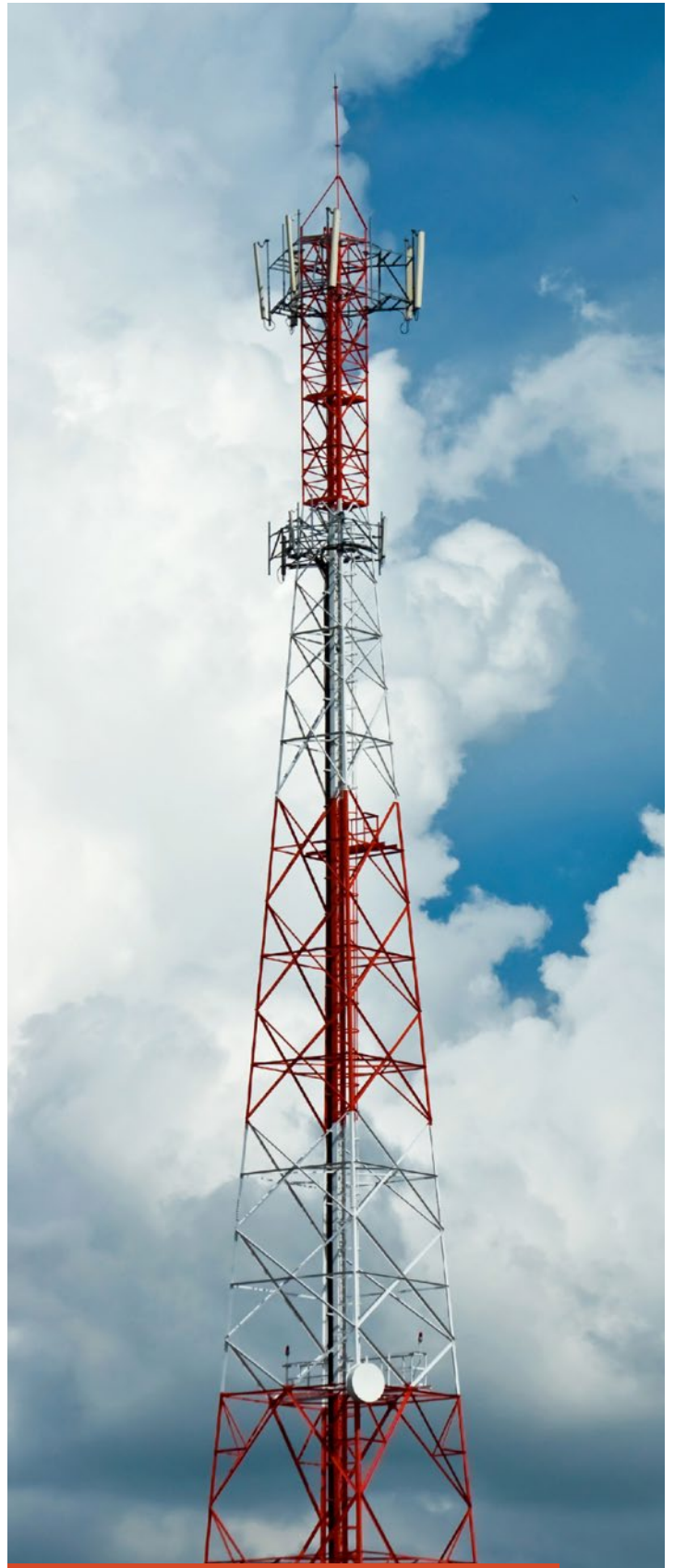
- Negative debt certification issued by the Department of Treasury, available [here](#).
- Certification of 5-year tax return filings issued by the Department of Treasury, available [here](#).
- Negative debt certification issued by ASUME (Child Support Administration), available [here](#).
- Negative debt certification issued by CRIM (Municipal Revenue Collection Center), available [here](#).
- Certificate of registration/incorporation, available [here](#).
- Articles of incorporation.
- Corporate resolution.
- Corporate seal.
- Use Permit, available [here](#).

*There is regulation being reviewed by the DEDC and others, that affects these fees. Invest Puerto Rico will update this document as new becomes available.

To Request R&D Tax Credit:

- Apply for a tax decree under Act 60-2019 on the [Incentives Portal](#) as detailed above.
- Submit a report to the DEDC of your activities; a guideline on how to prepare these reports will be submitted to each petitioner **upon request**. The DEDC must certify the eligibility of the R&D activities according to the terms and definitions of Act 60-2019.
- Complete **Part III of Schedule B** in your Income Tax Return for Exempt Businesses under the Puerto Rico Incentives Programs.

This guide does not constitute legal or tax advice on how to structure your technological or R&D activities on the island. If you or your legal advisor have doubts as to whether certain business activities may qualify for incentives, you can request a meeting with the DEDC to clarify any questions. You may also reach out to the Office of Incentives to receive additional information about processes on the [Incentives Portal](#), which is the digital platform to request incentives from the Puerto Rico Government. Invest Puerto Rico can help you request and secure these meetings.



Step 5: Find Workforce

Talent is key and we are seeing the academia working with the private sector to tailor curricula and internships to prepare the talents these companies need to succeed. Puerto Rico's tech ecosystem begins with the highly skilled technical workforce that local universities produce. Each year, tens of thousands of students graduate from the dozens of top-tier universities and colleges on the island. Over 20,000 degrees are awarded in Science, Technology, Engineering, and Mathematics (STEM) each year. The [University of Puerto Rico at Mayagüez](#) consistently ranks among the top engineering and science institutions, graduating **the largest number of Hispanic engineers in the United States**. The [Bayamón Campus](#) of the UPR has the largest Computer Science Department in Puerto Rico as well as an automation lab, and the [Polytechnic University](#) also produces top engineers and tech talent. Technical colleges and innovative coding schools like [Holberton School](#) also contribute to our local talent pool.

In addition to having a zest for life, Puerto Ricans are known as a productive workforce that has what it takes to get the job done. Most of the population is fluent in English and Spanish, and a deep sense of biculturalism gives Puerto Ricans a great understanding of global trends and idiosyncrasies. Puerto Rico has the lowest labor costs of any region under U.S. jurisdiction, while local employers enjoy high retention and low turnover rates.

Our Business Development team will assess your talent needs and connect with local academia, recruiters, headhunters, and employment agencies to provide you with updated information on talent availability, salary, and benefits information, etc. Where applicable, we will also provide information on the DEDC's Workforce Development Program and available funds under the Workforce Innovation



and Opportunity Act (WIOA) and the United States Department of Labor's Registered Apprenticeship Program. The Invest Puerto Rico team can also help you market professional opportunities within your Puerto Rico company, to reach potential candidates.

Invest Puerto Rico

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