



Puerto Rico Business Playbook

Research & Development Activities

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An emerging innovation ecosystem

Puerto Rico features a research-intensive public university system, numerous higher learning institutions, several public and private research centers, business incubators, accelerators, co-working spaces, a strong cluster of high-technology industries, financial, and government institutions supporting science, technology, and innovation development.

The island has asserted its global competitiveness by leveraging our business innovation ecosystem to sustain a robust cluster of high-technology manufacturing companies in key sectors such as life sciences and aerospace, as well as supply industries and supporting sectors related to banking, finance, insurance, real estate, and other services. These clusters are further strengthened by a highly skilled, bilingual workforce with vast knowledge in U.S. and global regulations.

Current efforts aim to attract, establish, and grow innovation-driven, knowledge-intensive enterprises, especially in emerging industry sectors.

About this document

This document is intended to serve as a guide regarding Industrial Research and Development (R&D) activities in Puerto Rico. It contains an overview of the R&D 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 required to request them. It is important to note that, once granted, the incentives may be made retroactive to the filing date of the application.

Prior to the creation of Act 60-2019, incentives for R&D were available under Act 73-2008. This older law will be mentioned several times in this document, for context, especially if your company is purchasing an existing business with an active tax exemption decree under Act 73. However, moving forward, all incentives for R&D are requested and granted under Act 60.

According to Act 60-2019, “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 research and development 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).

We’re here to help

Invest Puerto Rico is the official non-for-profit, private company tasked with attracting business and capital investment to Puerto Rico. Our team includes experts in Marketing, Research and Strategy, and Business Development. 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.



Let's Get Started!

Overview

The main objective of the Industrial Research and Development Program is to increase scientific innovation in Puerto Rico that results in products and services of commercial value and that are competitive in the global market. The program achieves this objective by encouraging investment in the development of new products and services, and promoting the implementation of high technology in industrial units operating in Puerto Rico.

The Industrial Research and Development Program includes tax credits and grants that award preferential corporate tax rates and is overseen and managed by the **Department of Economic Development and Commerce (DEDC)**. Act 60 centralized all incentives under the **Incentives Office** at DEDC, which is the agency in charge of receiving and evaluating applications for incentives. The DEDC's Senior Business Development Specialist is tasked with identifying the projects that qualify for these incentives, guiding clients in the application process to receive these, certifying the eligibility of proposed activities through Technical Advisory Opinions, and measuring the effectiveness of the program by collecting and evaluating data.



1. Tax Credit for Investment in R&D Activities

Act 60-2019 provides that a company that makes Special Eligible Investments in industrial R&D may be able to receive transferable tax credits equaling up to 50% of such eligible investments. The transferable tax credits can be used 100% towards the Exempt Business's own tax liability, transferred to affiliates, or sold to third party buyers of tax credits to use against their Puerto Rico tax liability. Any moneys generated from the sale of R&D tax credits must be reinvested into R&D.

Fifty percent of the tax credit may be used on the tax return corresponding to the year in which the Special Eligible Investment was made. The other 50% may be used in any subsequent years until exhausted. Tax credits sell for an average of 90% of face value, depending on demand and supply, the taxable year of the credit, when in the taxable year it is sold, and the amount of credit. There is no recapture against bona fide buyers. Tax credits may be used as a financing source of repayment or collateral. Approximately \$75 million in R&D credits are certified at the DEDC each year.

Eligible Activities for R&D Tax Credit

Experimental activities

These are activities that resolve a scientific or technological uncertainty and result in the generation of new knowledge to achieve a scientific or technological advancement, 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 the Incentives Code
- The following provision can only apply to companies with a tax exemption decree (grant) to provide R&D activities as a service:
 - Research and development processes carried out under contract for the benefit of a third party (contract research), and research and development 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 advancement

These include scientific planning activities whose purpose is to:

- Identify the scientific or technological uncertainty
- Assess the scientific or technological feasibility
- Define the scientific or technological objectives
- 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. This 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, only 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.

The following areas of software development also qualify for the R&D tax credit:

- Data processing
- Data storage
- Interface between systems
- Interface between systems and user

For these, 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.

The following activities, among others, are not considered as Eligible Activities for the R&D tax credit:

- Quality control or inspection of a manufactured product or process
- Activities to adapt a product, process, or service to the needs of a customer rather than a market
- Activities as a service to a third party without financial risk
- Market trials and marketing efforts
- Standardization tasks, routine testing and analysis of materials, components, products, or processes where the main objective is to perform analysis and develop standards
- Activities that address Scientific or Technological Uncertainties that can be easily resolved by a subject matter expert
- Improvements, optimizations, and fine tuning that do not affect the underlying Science or Technology
- The compilation of information or other content, in and of itself, is not R&D
- The operation of pilot plants, machinery, and equipment, after the Scientific or Technological Uncertainty has been resolved
- Design activities that do not directly contribute to the resolution of Scientific or Technological Uncertainties
- Activities to improve the cosmetic appearance of a product
- Regulatory activities that do not generate new knowledge directed to the development of products or processes



Special Eligible Investment

This refers to the amount of operational expenses directly related to the Eligible Activity. The term Special Eligible Investment includes an investment made with cash from a loan guaranteed by the exempt business or by its assets, or any entity affiliated to the exempt business or by its assets. It also includes an investment made with cash from a scholarship, agreement or otherwise financed by a government entity of the United States, but not from the Puerto Rico government.

Conditions

At least 80% of the operational expenses claimed must be related to Experimental Activities performed in Puerto Rico. The sum of the following items is limited to 20% of the amount of operating expenses directly related to Experimental Activities performed in Puerto Rico:

- Operating expenses attributable to Experimental Activities performed outside Puerto Rico
- Operating expenses directly related to Incidental Activities performed in or outside Puerto Rico

The exempt business may subcontract part of the R&D work, subject to the limitations above.

Operating expenses that qualify as a Special Eligible Investment:

- Payroll, including fringe benefits, commissions, and bonuses attributable to the R&D project, and corresponding employer contributions
- Insurance premiums
- Municipal patents and licenses
- Net expenses (not covered by subsidies or reimbursements) for electricity, water, and telecommunications
- Materials
- Depreciation or rental payment of the property attributable to the area of the property used exclusively for the R&D project
- Repair and maintenance of machinery and equipment when it is being used exclusively in the R&D project
- Rental or depreciation of machinery and equipment that is being used exclusively in the R&D project
- Technical professional services
- Technical and specialized training, in or out of Puerto Rico, directly related to an R&D project and directed to train employees of the Exempt Business. Does not include expenses related to continuing education or for updating professional licenses
- Capital expenditures (real estate), including the acquisition, construction, or improvement of physical facilities, provided that the facilities are used exclusively for R&D projects for a minimum period of 15 years



Non-eligible expenses for a Special Eligible Investment

- Depreciation, to the extent that the R&D tax credit has been claimed for the acquisition or construction of the physical facilities
- Depending on where the commercial implementation will take place, any expenditure of an Exempt Business incurred in R&D activities carried out under contract for the benefit of a third party (“contract research”), regardless of whether the company making the payment is itself an Exempt Business or not
- However, in the specific case of businesses that have a tax exemption decree (grant) for offering R&D services to third parties, capital investments in real estate, machinery, equipment, and instrumentation will be considered when destined to expand the services offered by the exempt business to new markets abroad

2. Tax Exemption for R&D as an Industrial Activity

Applicable laws

Acts 73-2008 and 60-2019 provide a **fixed corporate income tax rate of 4%** for providers of industrial research and development services. Additional benefits under Act 60 include:

- 0% rate on dividends distribution
- 75% property tax exemption (personal property and real estate)
- 75% construction tax exemption
- 50% municipal license tax exemption
- 50% exemption on other municipal taxes

Eligible Science and Technology Activities include:

- Breeding of animals for experimental use in laboratories for scientific and medical research
- Scientific or industrial research and development of new products or services or industrial processes
- Recycling
- Hydroponics
- Research, development, manufacturing, transportation, launch, operation from Puerto Rico of satellites and development services centers for data processing and storage, excluding telephony, broadcasting, and broadcasting operations
- Licensing of Intangible Property¹
- Development of video games
- 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 research and development mentioned among the eligible activities are therefore contract R&D, where the beneficiary of a tax exemption decree 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



Non-eligible business models:

- 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
- Companies whose primary income is generated from advertising and marketing to Puerto Rico's market
- Cases where the software has no methodology to carry out a valuable task
- Software entailing games of chance whose income is generated from bets

3. Tax Exemption of Pioneering Novel Activities

Act 73-2008 provided a fixed income tax rate of 1% for businesses manufacturing products in Puerto Rico using pioneering innovative technologies. This rate could be reduced to 0% if the technology was created or developed in Puerto Rico. Act 60-2019 provides the same benefit except at a rate between 1% and 4%.

4. Cash Grants Promote Small & Medium Enterprises

Act 73-2008 also provided an incentive to small and medium-sized companies that invested in innovation through research and development. This incentive will be included under Act 60-2019 through the regulation of Section 5010.01, which creates the Economic Incentive Fund. A yearly cash grant cycle provides up to \$100,000 for eligible investments in innovation by small and medium enterprises.

¹ 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.

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're making significant strides in this endeavor: bringing together the brightest minds from the private, academia, and public 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 to the people, agencies, providers, and resources to start this journey on the right track. Our role is to 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've got 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 don't 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 further your business objectives 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 [Molecular Sciences Research Center](#), the [Puerto Rico Agricultural Biotechnology Association](#), the [Puerto Rico Energy Center](#), the [Industry University Research Center \(INDUNIV\)](#), among 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 in Puerto Rico.

After you have all the right information and have decided on the adequate structure for your business, you'll need to register your business 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 an 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 the 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 like 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 in 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 & 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 clean rooms, wet and dry areas, temperature-controlled areas, specific air conditions, high ceilings, loading docks, proximity to universities or public transportation, capacity to test on animals? Do you want to lease or buy a space? Do you prefer a stand-alone operation, or will your R&D activities be well served at one of our research centers around the island? High technology, the latest machinery, innovation, capacity, 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 industrial R&D 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.

*The current regulation affects these fees and is being reviewed by the DEDC and others; these fees are not being charged now. Invest Puerto Rico will update this document when new information becomes available.

Step 4: Apply for Incentives

- a. Request a Merchant's Registration Certificate from the Puerto Rico Department of Treasury's electronic unified system, [SURI](#), at least 30 days prior to commencing operations. This certificate will confirm if the merchant is considered a withholding agent.
 - 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).
- b. Login to the Incentives Portal to begin the Act 60 application process.
 - Click [here](#) to access the Portal
 - Create a unique profile by following the steps detailed in Step 2 (see page 15).
 - 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](#).

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 R&D 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 X1 in your Income Tax Return for Exempt Businesses** under the Puerto Rico Incentives Programs.

Step 5: Find Workforce

In addition to their zest for life, Puerto Ricans are also 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 greater 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.

Each year, tens of thousands of students graduate from the dozens of top-tier universities and colleges on the island. An average of 20,000 degrees are awarded in Science, Technology, Engineering, and Mathematics (STEM) yearly. 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.

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.

This guide does not constitute legal or tax advice on how to structure your industrial R&D activities on the island. If you or your legal advisor has doubts as to whether certain business activities may qualify for incentives for R&D, you can request a meeting with the Senior Business Development Specialist to answer any questions regarding the eligible activities your business may obtain exemptions for. You may also reach out to the Office of Incentives to receive additional information about processes on the [Single Business Portal](#) (SBP), which is the digital platform to request incentives from the Puerto Rico Government.

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