



Tax



Business



People

Incentives for agricultural, film, young entrepreneurs and other industries

July 18, 2019

To continue our series and keep you informed of the most important changes to the incentives in Puerto Rico, we turn our attention to:

- **Bona Fide Farmers and Agricultural Businesses**, previously included in Act No. 225 of December 1, 2005;
- **Economic Incentives for the Film Industry of Puerto Rico**, previously contained within Act No. 27 of March 4, 2011;
- **Incentives for Young Entrepreneurs**, previously included in Act 135 of August 7, 2014;
- **Business Incubator Incentive Program**, previously included in Act 95-2013; and
- **Exemptions to Public Air Transport Services**, previously contained within Act No. 135 of May 9, 1945.

As discussed on our first issue, Act 60-2019 (known as the Incentives Code, referred to as the “Act”) codifies all the incentives granted throughout decades with the objective of adopting a comprehensive tool of economic development. The Act revokes Act 225-2005, as amended, and Act 95-2013, while simultaneously adopting a similar set of incentives and adopting the rest of the aforementioned incentives for applications filed after December 31, 2019 with some changes we discuss below.

Bona Fide Farmers and Agricultural Business

Act 255- 1995	New Code
Incentives were requested and granted directly by the Secretary of Agriculture, in consultation with the Secretary of Treasury on a yearly basis.	Bona fide farmers that wish to avail of the benefits of Act 60 shall request a grant of tax exemption from the Secretary of the Department of Economic Development and Commerce (DEDC), with previous recommendation from the Secretary of Agriculture.

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Bona Fide Farmers and Agricultural Business (cont'd)

Act 255- 1995	New Code
"Bona Fide Farmer" should derive 50% or more of its gross income from an agricultural business as operator, owner or tenant as recorded in its income tax return.	"Bona Fide Farmer" should derive 51% or more of its gross income from an agricultural business as operator, owner or tenant as recorded in its income tax return; or 51% of the production value and/or investment of an agroindustry business as operator, owner or tenant.
Eligible activities include farming of land to produce fruits, vegetables, meats and dairy, among others, for human or animal consumption.	Eligible activities include farming of land to produce fruits, vegetables, meats and dairy, among others, for human or animal consumption or as raw material for other industries.
Bona Fide Farmers are 90% exempt on income from agricultural or agroindustry business.	No change.
Total personal and real property tax exemption on property owned, leased, or held in usufruct by bona fide farmers that are used in a 75% or more in the agricultural business.	Reduces percentage of use of property to 35%. Property should be used in activities covered by the tax grant.
Provides excise tax exemption to certain articles introduced or acquired by bona fide farmers for use in their agricultural business.	The Act provides excise tax exemption to businesses breeding cocks and expands the exemption on gas and diesel oil used by an exempt business to other equipment used on other agroindustry or agricultural operations.
Adopted by Act 26-2008 (revoked by Act 60-2019).	<p>Incentives for Agricultural Research:</p> <ul style="list-style-type: none"> • The Department of Agriculture will promote highly technical agriculture, as well as the development of a research plan to quickly meet the needs of local companies and promote an increase in the production and export of agricultural products. • Will identify the priorities for granting funds to the best proposals in the research areas according to the government's public policy and will establish the necessary mechanisms and regulations to channel the requests for research proposals that are received. • The Department of Agriculture will submit to the DEDC a formal petition through the Economic Incentives Fund for such agricultural research that has identified as a priority.

Tax Incentives for the Film Industry of Puerto Rico

Act 27-2011	New Code
“Film projects” include feature film, short films, documentaries, series in episodes, musical videos, national and international announcements, video games, live recorded shows, recording of original soundtracks, television projects including reality shows, postproduction of one or various film projects.	“ Film festivals ” are included in the definition of “film projects”.
Net income for eligible activities subject to a fixed 4% income tax rate. Film studio operators are subject to an income tax rate between 6% to 10%.	Standardized 4% income tax rate on net income for eligible activities, including studio operators .
90% exemption on real and personal property dedicated to film activities covered by a tax exemption grant.	75% exemption on real and personal property dedicated to film activities covered a tax exemption grant.
100% exemption on municipal taxes, including municipal license taxes applicable to volume of business.	75% exemption on municipal taxes, including municipal license taxes applicable to volume of business.
Grantees dedicated to film projects may request the following tax credits: <ul style="list-style-type: none"> a) 40% on Puerto Rico production expenses. b) 20% on payments to qualified non-residents (above-the-line talent). c) Certain projects can obtain a tax credit of up to 90% if the project complies with requirements. 	Credit system is simplified. The 40% and 20% credits are maintained. The following credit is adopted: <ul style="list-style-type: none"> a) Up to fifteen percent (15%) of Puerto Rico Production Expenses, excluding payments made to a Foreign Person, in full-length films, series, or documentaries in which a Domestic Producer is in charge of the Film Project and the director, the cinematographer, the editor, the production designer, the post-production supervisor, or the line producer are Domestic Persons, up to a maximum of four million (\$4,000,000) of the tax credit per Film Project under this provision.

In connection to the **incentives applicable to young entrepreneurs**, the Act provides that they shall request a grant of tax exemption with the Department of Economic Development and Commerce as opposed to the Puerto Rico Trade and Export Company (previously **Act 135-2014**).

The Act adopts the **provisions related to business incubators** (created originally by Act 95-2013). The DEDC will explore ways to stimulate the expansion of business incubators in Puerto Rico by adopting the incentives set forth in the Act to strengthen entrepreneurship and seek the necessary training for the creation of sustainable businesses that generate new jobs. The funds provided for these benefits will come from the Economic Incentives Fund.

Incentives applicable to **public carriers of air transport services** shall be requested through a tax exemption grant with the DEDC.

The Act is mainly effective from July 1, 2019. Changes incorporated by the Act will not affect current grantee holders. Applicants may elect to file under previous laws or under the Act until December 31, 2019. Commencing on January 1, 2020, all applications will have to be submitted under the Act. However, the Secretary of the DEDC may implement by regulation provisions of the Act before January 1, 2020 to further the objectives of the Act.

Please contact our Tax Department should you require additional information regarding this or any other tax issue. We will be glad to assist you.



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