

IRS Ramps Up Enforcement Efforts on Puerto Rico's Tax Incentive Programs

July 20, 2023



Businesses and individual taxpayers participating in Puerto Rico's Act 60 (also known as Act 20 and Act 22 prior to 2019) program ("the Act") should be aware of the recent Internal Revenue Service ("IRS") announcement that it will pursue criminal investigations into potential abusers of the Act. Because of the current tax incentives and widespread adoption of remote work, especially in finance, cryptocurrency, law, and management services, more and more businesses and individuals are relocating to the island.

The Act provides tax exemptions to businesses and individuals who relocate to, or are established in, Puerto Rico. The U.S. tax code allows a bona fide resident of Puerto Rico to exclude Puerto Rico-sourced income from their gross income for federal tax purposes.

The recent announcement isn't the first time the IRS has publicly signaled its intent to crack down on those who abuse Puerto Rico's tax incentive program. In 2021, the IRS released its annual "Dirty Dozen" scam lists, which mentioned abusive arrangements relating to offshore insurance companies domiciled in Puerto Rico, while in 2022 and 2023, Puerto Rico's residency programs were added to the list.

With the passage of the Inflation Reduction Act of 2022, which allocated substantial funding to the IRS, especially for enforcement, the agency has increased resources for its investigations. This increased funding allows the IRS to investigate individuals and the professionals who assist the taxpayers in question, including accountants, attorneys, financial advisors, promoters of Puerto Rico residency programs, and other relevant advisors. The IRS has stated that they are investigating over 100 high-income individuals who may potentially be unlawfully taking advantage of Act 60.

Anchin's International Tax Group can help you navigate Act 60 to ensure you qualify for benefits and assist you with on-island resources to set up a Puerto Rico-based service company. If you are already participating in Act 60, it is crucial to work with tax advisors to ensure the reasonableness of your tax positions and that your documentation is in order in case of a subsequent audit. If you are subject to a bona fide residency examination or have been contacted by the IRS, please contact [Gwayne Lai](#), Partner of the International Tax Group, [Alan Goldenberg](#), Principal and Leader of the Tax Controversy and State and Local Tax Groups, or your Anchin Relationship Partner.