



# Puerto Rico: Significantly Lower Your Tax Rates with the Resident Tax Incentive

The Tax Incentive Code, known as “Act 60” provides tax exemptions to businesses and investors that relocate to, or are established in, Puerto Rico. With the right structuring, one could essentially lower their effective tax rate from as high as 50% or more to 4% under the right circumstances, by moving to the island.

These incentives are particularly attractive to U.S. citizens who move to Puerto Rico because:

1. They do not need residency permits;
2. Their Puerto Rico income is exempt from U.S. federal and state income taxes;
3. They get to keep benefits such as Medicare and Social Security; and
4. The Puerto Rico tax code mirrors the U.S. Internal Revenue Code, making the transition much easier for those who become bona fide residents of the island.

## **TAX BENEFITS OF MOVING TO PUERTO RICO:**

- The U.S. tax code allows a bona fide resident of Puerto Rico to exclude Puerto Rico-source income from his or her gross income for U.S. tax purposes.
- Depending on the type of asset, bona fide residents may not be subject to U.S. federal and state tax on capital gains if they acquired the asset after establishing residency in Puerto Rico.

## HOW TO BECOME A BONA FIDE RESIDENT OF PUERTO RICO:

- Individual, and often immediate family, must be physically present in Puerto Rico for a specified period of time (Presence Test);
- Individual does not have a tax home (i.e., place of business) outside of Puerto Rico during any part of the taxable year (Tax Home Test);
- Individual does not have a closer connection to the U.S. or a foreign country than to Puerto Rico during any part of the taxable year (Closer Connection Test); and
- In the year an individual begins or ends bona fide residency in Puerto Rico he or she must complete a special reporting statement with the IRS.



## HOW ANCHIN CAN HELP

- Aid in the exploration of a new business or relocation of an already-existing business to Puerto Rico;
- Assist in the exit from a U.S. state tax perspective and advise on the requirements of changing residency and domicile;
- Coordination of advice and compliance provided by local accountants, lawyers, and advisors;
- Analyze sourcing of gains and types of assets to maximize cash on exits and minimize tax exposure;
- Strategize and gather the necessary documentation to prove Puerto Rican residency from a U.S. federal tax perspective; and
- Provide estate planning, wealth accumulation and succession planning expertise.

Anchin's International Tax Group can help you to navigate the various tests to ensure you qualify for Puerto Rico's tax benefits. We can also assist you with on-island resources to set up a Puerto Rico-based service company. Please contact Gwayne Lai, Director and Leader of Anchin's International Tax group, Alan Goldenberg, Principal and Leader of Anchin's State and Local Taxation and Tax Controversy groups or your Anchin Relationship Partner.



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