Circular Letter
No. OECD 2015-001

February 4, 2015

TO THE GRANTEEES, APPLICANTS, REPRESENTATIVES OF GRANTEEES AND APPLICANTS OF TAX EXEMPTION UNDER THE PROVISIONS OF ACT 20-2012, AS AMENDED


On December 19, 2014, the Governor of the Commonwealth of Puerto Rico, Honorable Alejandro García Padilla, approved Act 232-2014 ("Act 232"). The purpose of Act 232 is to amend Section 2(d)(1)(B) of Act 73-2008, as amended ("Act 73"), in order to include an eligible activity. Furthermore, Act 232 amends Articles 41, 10 and 13 of Act 20-2012, as amended ("Act 20") to expand the definition of "Eligible Business" and amends the process of approval of a grant, making it a shorter amount of time between the time of application and time of approval, among other purposes.

This Circular Letter is intended to notify and clarify the provisions of such Act 232.

Amendment to the Act: 73

Article 1 of Act 232 amends Section 2(d)(1)(B) of Act 73 to include among the definitions of "Eligible Business" those businesses dedicated to the production of "corrugated cardboard boxes, containers and other corrugated cardboard receptacles".

Amendments to the Act 20

Article 2 of Act 232 amends Article 3(k) of Act 20 in order to add the following services to the definition of "Eligible Services":

1. Rendering of centralized managerial services, including but not limited to the distribution and logistics realized by headquarters and other similar regional offices or businesses devoted mainly to that activity, provided to business or persons located outside of Puerto Rico, as well as the export of strategic and organizational planning of distribution and logistics process.

1 It shall read “Article 3”.
2. Commercial and mercantile distribution of products manufactured in Puerto Rico to markets outside Puerto Rico.

3. Assembling, bottling and packing operations for markets outside Puerto Rico.

4. Marketing centers devoted mainly to promote, through lease fees for services or other type of fees, space and services such as: secretarial, translation and data processing services, communications, marketing, telemarketing and other consulting services for enterprises devoted to or otherwise related to the purchase and export of products or rendering of services to markets outside of Puerto Rico, including export and marketing companies, aggregate and commercial consulates, government agencies responsible for foreign trade, barter and product and services exhibition centers.

5. Companies devoted to international trading companies. International trading companies shall mean entities that derive not less than eighty percent (80%) of their gross income:

(a) from the purchase of products manufactured in or outside of Puerto Rico and the resale of such products for their use, consumption or disposition outside of Puerto Rico; and

(b) from commissions derived from the sale of products for their use, consumption or disposition outside of Puerto Rico; provided, that no part of the income derived from the sale or resale of products for their use, consumption or disposition in Puerto Rico shall be deemed to be industrial development income², and the property devoted to that activity shall not be devoted to other activities not authorized under the grant.

Article 3 of Act 232 amends Article 10 of Act 20 in order to modify the inter-agency consideration of applications. As a result of the amendment, applications received on or after January 7, 2015, first working day for the Government of the Commonwealth of Puerto Rico after the Christmas holidays, the Office of Industrial Tax Exemption (“OITE”) is responsible to render an eligibility report on the activity to be carried out and other facts relative to the application, as well as to prepare the draft decree, within fifteen (15) working days as of the date of filing of the Application to the OITE. The agencies and municipalities consulted by the OITE maintain a twenty (20) days period to submit their report or recommendation regarding the draft decree referred to them. In the case of an amendment to an approved grant, the period to submit their report or recommendation is reduced to ten (10) days.

Concerning the applications filed before January 7, 2015, the process will be subject to the provisions of Act 20 before the enactment of Act 232. That is, the Executive Director of PRIDCO will be responsible to submit his Eligibility Report and recommendations to the Director of OITE within twenty (20) working days as of the date of the copy of the Application was referred to him by the OITE. OITE and PRIDCO are implementing a transition plan to secure the continuity of the evaluation process of Act 20 applications filed before January 7, 2015 and those filed on or after said date. The Department of Economic Development and Commerce, OITE and PRIDCO are committed to evaluating Act 20 application in a diligent and efficient manner.

---

² It shall read “Export Service Income”.
As a result of this amendment, we expect a significant reduction in the processing times for Act 20 applications received by the OITE.

On the other hand, Article 4 of Act 232 amends Article 13(d) of Act 20 in order to transfer from the Department of Economic Development to the OITE the responsibility to conduct, every two (2) years, at the least, an audit on the compliance of the terms and conditions of the decree granted under Act 20. The OITE is also authorized to charge a fee for the audit process. This is an administrative amendment.

It is also clarified that the filing fee of three hundred dollars ($300) approved for the annual reports under Act 73 will still be applicable to the exempted businesses under Act 20, until a regulation for that matter is approved.

The information provided within the annual report will still be used for statistics and economic studies as provided by the Act. The Form for the annual report under Act 20 is currently under review; as soon as the revised version is available, this Office will notify the exempted businesses.

The amendments introduced to Act 20 strengthens Puerto Rico’s competitiveness as an international hub of export services by adopting a more efficient evaluation process of the Act 20 applications and including additional eligible activities.

For questions or concerns regarding this Circular Letter, please contact OITE at (787)764-6363.

Cordially,

Elizabeth Aponte Rivera
Executive Director