

**ACT NO. 126 OF JUNE 28, 1966**  
**(Also known as “Maritime Freight Transportation Act”)**

**TITLE 13, CHAPTER 35, SUBCHAPTER V**  
**PUERTO RICO LAWS ANNOTATED**

**Section 1. – Exemptions; Grant. –**

- (a) Any natural or juridical person engaged in an eligible business is hereby exempted from the payment of taxes on his net income deriving from shipping activities, for a period of ten (10) years.
- (b) Ships and property of any other kind, real and personal, utilized in relation with an eligible business, shall not be subject to municipal or commonwealth taxes on real and personal property, for a period of ten (10) years. If a person engaged in an eligible business utilizes property belonging to him, as well as property belonging to another person, said exemption shall be applicable to his property, and shall separately and independently apply also to the property of such other person.
- (c) Eligible businesses shall be exempt from the payment of license taxes, excises, and other municipal taxes imposed by any ordinance of any municipality, for a period of ten (10) years. These exemptions shall take effect when the taxpayer shall notify the corresponding municipalities that it or he has been granted by the Governor the benefits of this subchapter.
- (d) In the case of exemptions from the payment of property tax the same shall take effect from the fiscal year next following that in which the taxpayer shall notify the Secretary of the Treasury that it or he has been granted the benefits of this subchapter. In the case of exemptions from income tax the same shall take effect beginning with the taxable year during which the Secretary of the Treasury is notified by the taxpayer that it or he has been granted the benefits provided by this subchapter.
- (e) The Governor of Puerto Rico may, upon proper application therefor, grant the exemptions provided in this subchapter whenever he shall find, after consultation with the Economic Development Administration and the Secretary of Commerce, that such exemption is necessary and convenient for the development of the economy and welfare of the Commonwealth of Puerto Rico on the grounds that: (a) it will provide greater maritime freight transportation facilities between ports in Puerto Rico and ports in foreign countries; and (b) it will provide such specific services as the Governor may find necessary to the development of the economy and welfare of the Commonwealth of Puerto Rico.

**Section 2. – Definitions. –**

- (a) *Eligible business.* – Means: (i) maritime transportation of freight between ports in Puerto Rico and ports in foreign countries, and (ii) the lease or rent of ships which are utilized in said transportation, or property of any other kind, real and personal, utilized in relation with the operation of said ships when the transportation meets the above requirements.
- (b) *Net income deriving from shipping activities.* – Means the gross income deriving from, or related with, the use, lease or rent for use, of any ship, or part thereof, utilized in the transportation of freight between ports in Puerto Rico and ports in foreign countries, or of any property of whatever kind, real or personal, utilized in the operation of said ship.

**Section 3. – Distributions. –**

- (a) The distribution of dividends or profits by a corporation or partnership availing itself of the provisions of this subchapter, which has not enjoyed or is not enjoying industrial tax exemption and which on the date of commencing exempted shipping operations has accumulated a taxable surplus, shall be considered as made from the undistributed balance of said surplus, but after the latter is exhausted by virtue of such distribution, the provisions of subsection (c) of this section shall be applicable.
- (b) The distribution of dividends or profits by a corporation or partnership which has enjoyed or is enjoying industrial tax exemption shall be considered as made from the surplus accumulated during the period in which it has enjoyed or is enjoying industrial tax exemption and shall be governed by the provisions of the laws under which they have been so far governed. After such surplus is exhausted, the provisions of subsection (c) of this section shall be applicable.
- (c) Except for the provisions of subsections (a) and (b) of this section, the distribution of dividends or profits by a corporation or partnership availing itself of the provisions of this subchapter shall be considered as deriving from the gains or profits most recently accumulated and shall be exempt in the same proportion in which the income was exempt, to the following persons:
  - (1) Persons residing in Puerto Rico, or
  - (2) Persons not residing in Puerto Rico who are not under obligation to pay in any jurisdiction outside Puerto Rico any tax on their income deriving from any source in Puerto Rico;
  - (3) Persons not residing in Puerto Rico who, on account of the laws of the country where they reside, cannot take, as a deduction from income or as a credit against the tax payable in said country on the dividends or profits derived from a corporation or partnership exempted under this subchapter, the tax which would be imposed to them in Puerto Rico on such dividends or profits, or
  - (4) Persons not residing in Puerto Rico who, on account of the laws of the country where they reside, can only take partially, as a deduction from income or as a credit against the tax payable in said country on the dividends or profits derived

from a corporation or partnership exempted under this subchapter, the tax which would be imposed to them in Puerto Rico on such dividends or profits; Provided, That the exemption provided in this section shall apply only to such portion of the income tax which may be imposed in Puerto Rico on dividends or profits as may not be deductible from the income or creditable against the tax to be paid in such country on such dividends or profits.

Any person desiring to avail himself of the provisions of clauses (3) and (4) of this subsection, shall present to the Secretary of the Treasury of the Commonwealth of Puerto Rico a certified or authenticated copy, in Spanish or English, of the laws or regulations in force in the country where he resides, indicating specifically the provisions of such laws or regulations as are applicable to his case, with any other information or evidence showing that said person qualifies under the above clauses (3) and (4) of this subsection.

#### **Section 4. – Liquidation. –**

In case of liquidation of a corporation or partnership which has received income exempted under this subchapter, the taxable profit in liquidation shall not include that portion of the accumulated surplus attributable to such exempt income, subject to the limitations of Section 3(c).

#### **Section 5. – Transfer of Business. –**

If the person exempted under this subchapter transfers his business, said transfer shall be notified to the Secretary, and the transferee shall enjoy the exemption provided by this subchapter for the unexpired portion of the exemption period, if and when the Secretary approved said transfer.

#### **Section 6. – Denial of Tax Exemption. –**

- (a) Except as provided in this subchapter, no person who has enjoyed or is enjoying the exemption provided by this subchapter shall be entitled to a new exemption through the establishment of another business in which he holds an interest of ten (10) or more percent. For these purposes, the holding of shares or participation in the other business shall be determined according to the provisions of the income tax laws in force in Puerto Rico.
- (b) Any person who for the purpose of benefiting himself of the exemption provided by this subchapter liquidates or reorganizes his business, or utilizes any other method whereby he pretends that an income deriving from maritime freight transportation between ports in Puerto Rico and ports in foreign countries which would otherwise be taxable may appear as exempt, shall be under obligation to pay the corresponding taxes, surcharges, and penalties on said income.

#### **Section 7. – Accounting System. –**

Persons availing themselves of the exemption provided by this subchapter shall keep in Puerto Rico an accounting system which clearly reflects the gross income, expenses, losses, and other deductions relative to maritime freight transportation between ports in Puerto Rico and ports in foreign countries. They shall, further, include in their income tax returns and in the corporation return, as annexes, a profit and loss statement of the operations exempted by this subchapter.

**Section 8. – Administration. –**

The Secretary of the Treasury shall prescribe such rules as he may deem necessary to attain the purposes of this subchapter.

**Section 9. – Effectiveness. –**

The provisions of this subchapter shall apply to taxable years commencing after December 31, 1966. This subchapter shall take effect immediately after its approval.

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