

## GOVERNMENT OF PUERTO RICO

18th 4th Assembly Session  
Ordinary Legislative

### SENATE OF PUERTO RICO

# P. of S. 1147

November 7, 2018

*Presented by Mr. Rivera Schatz, Seilhamer Rodríguez, Ríos Santiago, Martínez Santiago, Berdiel Rivera, Correa Rivera, Cruz Santiago; Mrs. Laboy Alvarado; Messrs. Laureano Correa, Muñiz Cortés, Neumann Zayas; the ladies Nolasco Santiago, Padilla Alvelo, Peña Ramírez; Messrs. Pérez Rosa, Rodríguez Mateo, Romero Lugo, Roque Gracia; Mrs. Vázquez Nieves and Venegas Brown*

Referred to the Federal, Political and Economic Relations Commission

## LAW

To create the "Puerto Rico Economic Development Opportunity Zones Development Act of 2018", add a new section 1031.06 to Act 1-2011, as amended, known as the "Internal Revenue Code of Puerto Rico of 2011" ; amend Section 1010.01 of the Internal Revenue Code of Puerto Rico of 2011; amend Section 5 of Act 22-2012, known as the "Act to Encourage the Transfer of Individual Investors to Puerto Rico"; amend Articles 3 and 104 of Act 185-2014, as amended, known as the "Private Capital Fund Law"; and add a new Article 84A in Law 17-2017, in order to promote incentives and a favorable regulatory environment to establish qualified Opportunity Zones in Puerto Rico; and for other related purposes.

## EXPLANATORY MEMORANDUM

The "Tax Cuts and Jobs Act of 2017" ("Federal Tax Reform"), introduced a series of changes to existing federal tax legislation. Among the changes approved under the new federal legislation is the creation of Qualified Opportunity Zones ("Qualified

TEXT APPROVED IN FINAL VOTE BY THE SENATE  
(NOVEMBER 8, 2018)

A-94

Opportunity Zones") under Sections 1400Z-1 and 1400Z-2 of the Federal Internal Revenue Code ("IRS") of 1986. Under the Opportunity Zones modality, investors can defer the taxation of capital gains by reason of the sale of an asset, carried out before January 1, 2027, if they invest an amount equal to the profit made in an Opportunity Fund Qualified ("Qualified Opportunity Fund").

An Opportunity Zone, in general, must have a population census within the state that qualifies as a low income community, as defined in Section 45D (e) of the Federal Internal Revenue Code. In order to qualify as a low-income community, the corresponding population census can not have a poverty level of less than 20%, nor an average family income that exceeds 80% of the average state or metropolitan area income (depending on the location of the population). population census).

The process of designation of the Opportunity Zones was carried out in early 2018 and included a nomination process by states, territories and the District of Columbia. The nominations period ended on March 21, 2018. The information published by the Federal Internal Revenue Service shows that there are over 8,700 population censuses located throughout all States and Puerto Rico that have been designated as Qualified Opportunity Zones.

In the case of Puerto Rico, all low-income communities were automatically designated as Qualified Opportunity Zones. In addition, another 26 population censuses were designated that did not qualify under the definition of a low-income community. In total, approximately 95% of Puerto Rico is considered a Qualified Opportunity Zone under federal parameters.

One of the most important points that was analyzed for this federal law is that the tax benefit of the Opportunity Zones is limited to the tax rules at the federal level. For this reason, many States are being proactive in adopting contributory, incentive legislation and favorable regulatory environment to attract investment to the Opportunity Zones located in their jurisdiction. The effect of federal legislation has been to create competition between States and territories. Therefore, States are being aggressive in establishing the tax, regulatory and economic framework that is the most attractive for a Qualified Opportunity Fund.

The unique treatment that Puerto Rico has in this federal legislation represents one of the best economic development tools that Puerto Rico has and which we have to maximize. Faced with the reality that Puerto Rico will be competing with other states to be an investment destination, the Government of Puerto Rico considers it urgent to approve incentive legislation for Qualified Opportunity Funds that invest in Priority

TEXT APPROVED IN FINAL VOTE BY THE SENATE  
(NOVEMBER 8, 2018)

A-94

Projects in areas of opportunity. The tax incentives that this measure contemplates are aimed at ensuring that the yield that a Priority Project can produce in areas of opportunity exceeds the returns that other States may offer.

To achieve these objectives, this measure proposes an incentive framework for a period of 15 years. The proposal is similar to the incentives offered by other incentive laws, with the following features:

1. A contribution of 20% on the net income of an exempt business.
2. Exemption in the taxation of dividends.
3. 50% exemption on patents and property taxes. 90% exemption for Residential Priority Projects in areas of opportunity.
4. 100% exemption from construction taxes.
5. Maximum investment credit of 15% that is transferable.
6. A credit priority system for Priority Projects in areas of opportunity.
7. Deferral of the taxation of capital gains for profits invested in a Qualified Opportunity Fund in Puerto Rico under norms similar to those approved in federal legislation.
8. Tax exemption for interest accrued on loans to exempt businesses.
9. An agile procedure for the evaluation and issuance of permits for exempt businesses and projects agreed in an Alliance Contract in accordance with Act No. 29-2009, as amended.

This law also includes several amendments to clarify the rules applicable to funds that operate under Law 185-2014, as amended, known as the "Private Capital Fund Law". The Internal Revenue Code is also amended so that these rules harmonize with the purposes of promoting investment in Puerto Rico.

Likewise, in order to guarantee an efficient and expeditious process for the evaluation of permit applications, those developments designated as Priority Projects in areas of opportunity under the provisions of this law are declared of urgent interest, given that, among other things, , will attract private economic investment to the Island that otherwise would not exist, helping its economic development and the creation of jobs at

TEXT APPROVED IN FINAL VOTE BY THE SENATE  
(NOVEMBER 8, 2018)

A-94

critical moments for the economy of Puerto Rico. These priority projects in areas of opportunity are of pressing interest, in addition, because the window of opportunity to establish them is limited and to be viable, they must be established quickly.

In light of the pressing interests involved, a special procedure is established for the efficient and expeditious processing of permits for Priority Projects in areas of opportunity that, although with more procedurally abbreviated terms, ensure that the applicable substantive legal requirements are fully complied with. Under this special procedure, government agencies with interference in the processing of permits, licenses, franchises, consultations or certifications for Priority Projects in areas of opportunity will have to be governed by the provisions of this Act and will be exempted from compliance with the terms and procedures established in Act 161-2009, as amended, known as the "Puerto Rico Permits Process Reform Act", in Act No. 75 of June 24, 1975, as amended, known as "Law Organic of the Planning Board of Puerto Rico ", in Law 81-1991, known as the " Autonomous Municipalities Act of the Commonwealth of Puerto Rico of 1991 "and in Act 38-2017, as amended, known as the" Uniform Administrative Procedures Act of the Government of Puerto Rico ", as well as the regulations promulgated under them. The substantive requirements applicable to the permit in particular will be those established by the law or regulation that governs the permit.

**BE IT ENACTED BY THE LEGISLATIVE ASSEMBLY OF PUERTO RICO:**

Section 1.- This Act shall be known and may be cited as the "Act on Development of Economic Opportunity and Development Areas of Puerto Rico of 2018".

Section 2.-Public Policy Statement.

(a) It shall be the public policy of the Government of Puerto Rico:

(1) Convert Puerto Rico into an investment destination of Opportunity Zone Funds that invest in Priority Projects in areas of opportunity.

(2) Provide the environment for the continuous formation of local and foreign capital for investment in Priority Projects in areas of opportunity.

(3) Establish the contributory, legal and regulatory framework that encourages, expedites and encourages investment in Priority Projects in areas of opportunity.

Article 3.-Definitions.-

TEXT APPROVED IN FINAL VOTE BY THE SENATE  
(NOVEMBER 8, 2018)

A-94

(a) For the purposes of this Act, the following terms and phrases shall have the meaning expressed below:

(1) "Eligible Activity" means a Priority Project carried out within a zone of opportunity.

(2) "Chief Financial Officer" means the principal public finance officer created pursuant to Executive Order OE-2013-007.

(3) "Chief Investment Officer" means the principal investment officer created pursuant to Executive Order OE-2018-035.

(4) "Code" means Act 1-2011, as amended, known as the "Internal Revenue Code of Puerto Rico of 2011", or any successor law.

(5) "Federal Internal Revenue Code" means the Federal Internal Revenue Code of 1986, Pub. Law 99-514, 68A Stat. 3, as amended, or any subsequent law that replaces it.

(6) "Commissioner" means the Commissioner of Financial Institutions created by Act No. 4 of October 11, 1985, as amended.

(7) "Committee" means the "Committee of Priority Projects in Opportunity Zones", attached to the Office of the Governor, with the powers provided for in this Act, and composed of the Chief Financial Officer ("Chief Financial Officer"), who it will be chaired by the Chief Investment Officer ("Chief Investment Officer"), and the Executive Director of the Financial Advisory Authority and Fiscal Agency of Puerto Rico. The Governor may appoint other members to the Committee to meet specific requests, according to the nature of the requesting business. The Committee shall adopt the rules, procedures and regulations that are necessary for the purposes of the functions assigned in this Act without being subject to the provisions of Law 38-2017, known as the "Uniform Administrative Procedures Act of the Government of Puerto Rico."

(8) "Decree" means the decree issued in accordance with Article 8 of this Act, by means of which the approval of an application duly filed and the conditions imposed on it are notified.

(14) "Governor" means the Governor of Puerto Rico.

TEXT APPROVED IN FINAL VOTE BY THE SENATE  
(NOVEMBER 8, 2018)

A-94

(15) "Net income from opportunity zones" means the net income of an exempt business generated in the operation of an eligible activity, as determined under the Code.

(16) "Eligible investment" means the cash that has been contributed to:

(A) a Fund that is an exempt business in exchange for shares issued by the Fund (if the Fund is a corporation) or a change in a Fund interest (if the Fund is a company, limited liability company, partnership or company) in common);

(B) a Fund in exchange for shares issued by the Fund (if the Fund is a corporation) or in exchange for a share in the Fund (if the Fund is a limited company, limited liability company, partnership or company) and the Fondo invests such contributions to the capital of a corporation that is an exempt business or a company that is an exempt business in exchange for shares issued by the corporation or in exchange for a share in the company (if the company is a limited liability company, company or joint venture) and such investment by the Fund is in compliance with Section 1400Z-2 (d) (2) of the Federal Internal Revenue Code; or

(C) to a corporation that is an exempt business in exchange for shares issued by the corporation, or to a limited liability company, partnership or joint venture that is an exempt business in exchange for a share issued by a limited liability company, partnership or company in common, as long as a Fund invests in said corporation or limited liability company, partnership or joint venture and such investment by the Fund is in compliance with Section 1400Z-2 (d) (2) of the Internal Revenue Code Federal.

(17) "Investor" means any natural or legal person making an eligible investment, as defined in paragraph (16) of subsection (a) of this Article.

(18) "Municipal Patents Act" means Act No. 113 of July 10, 1974, as amended.

(19) "Business" means a corporation, partnership, liability company, partnership or joint venture.

(20) "Eligible business" means a business that meets the following requirements:

(A) the activity of the business is carried out in its entirety in an eligible area;

TEXT APPROVED IN FINAL VOTE BY THE SENATE  
(NOVEMBER 8, 2018)

A-94

(B) The activity carried out by the business is not eligible for a concession of tax exemption under Law 20-2012, known as the "Law to Promote the Exportation of Services", Law 73-2008, known as the " Economic Incentives Act for the Development of Puerto Rico ", Law 74-2010, known as the" Puerto Rico Tourism Development Act of 2010 ", Law 83-2010, known as the" Port Green Energy Incentives Law " Rico ", Law 27-2011, known as the" Economic Incentives Act for the Film Industry of Puerto Rico "or any successor or analogous law to those previously described;

(C) the business is carried out by the Fund or an entity in which the Fund invests under section 1400Z-2 (d) (2) of the Federal Internal Revenue Code, and fifty (50) percent or more of the capital contributed to the Fund in exchange for shares of the Fund (if the Fund is a corporation) or in exchange for shares of the Fund (if the Fund is a company, limited liability company, partnership or joint venture) comes from investments with respect to the which investors conducted an election under section 1400Z-2 (a) of the Federal Internal Revenue Code, or section 1031.06 of the Code; Y

(D) The activity carried out by the business is a Priority Project in the area of opportunity.

(21) "Exempt business" means an eligible business that has been granted a tax exemption decree under this Act.

(9) "Credit for eligible investment" means the credits according to section (i) of Article 4 of this Law.

(10) "Director" means the Director of the Office of Industrial Tax Exemption.

(11) "Distribution of net income from development of opportunity zones" means any distribution of dividends or profits of an exempt business or distribution in liquidation of a business exempt from the profits and profits from the net income of opportunity zones.

(12) "Non-existent entity" means an entity that is treated as a "disregarded entity" for purposes of the Federal Internal Revenue Code.

TEXT APPROVED IN FINAL VOTE BY THE SENATE  
(NOVEMBER 8, 2018)

A-94

(13) "Fund" means an entity that is an "Opportunity Zone Fund" pursuant to section 1400Z-2 (d) (1) of the Federal Internal Revenue Code.

(22) "Exemption Office" means the Office of Industrial Tax Exemption;

(23) "Priority Project in opportunity zones" means an industry or business or other income producing activity that will contribute to the diversification, recovery or social and economic transformation of the community of the eligible area, as approved by the Committee in consultation with the Governor.

(24) "Eligible Residential Priority Project" means a Priority Project in areas of opportunity that have an important component of social interest housing, as determined by the Committee.

(25) "Secretary" means the Secretary or Secretary of the Department of the Treasury of Puerto Rico.

(26) "Secretary of Economic Development" means the Secretary or Secretary of the Department of Economic Development and Commerce.

(27) "Eligible Zone" means an area of Puerto Rico that has been designated as a zone of opportunity under section 1400Z-1 (b) (3) of the Federal Internal Revenue Code and that has been designated as an area eligible by the Committee. in consultation with the Governor.

(b) Definitions of other terms. - The other terms that are used in this Law, unless specifically stated otherwise, will have the same meaning as they have in the Code and its regulations.

Article 4.-Income Tax.

(a) Net income from opportunity zones.- An exempt business will be subject to a fixed rate of income tax on its net income of opportunity zones of twenty (20) percent instead of any other tax imposed by the Code.

(b) Treatment of non-existent entities ("disregarded entities") and companies.-

(1) If an exempt business is a non-existent entity, it will be treated for purposes of the Code in the same way that it is treated under the Federal Internal Revenue Code and the provisions of Chapter 7 of Subtitle A of the Code will not be applicable.

(2) If an Exempted Fund or business is an entity that would otherwise be subject to the provisions of Chapter 7 of Subtitle A of the Code, the Fund or the exempt business shall be treated as a corporation for purposes of Subtitle A of the Code.

(3) The Secretary shall publish the forms, forms, and declarations that must be filed by the Fund or the exempted business covered by this section and shall issue any

TEXT APPROVED IN FINAL VOTE BY THE SENATE  
(NOVEMBER 8, 2018)

A-94

regulation, administrative determination, circular letter or general newsletter that is necessary for the purposes of this section.

(c) Royalties, Revenues or Royalties ("Royalties") and License Rights.- Notwithstanding, the provisions of the Code, in the case of payments made by an exempt business to corporations, companies or non-resident persons, not dedicated to industry or business in Puerto Rico, for the use or privilege of use in Puerto Rico of intangible property related to the operation declared exempt under this Act, and subject to such payments being considered from sources within Puerto Rico, the following shall be observed rules:

(1) Contribution to Corporations, Foreign Companies or Non-Resident Persons Not Dedicated to Industry or Business in Puerto Rico: Imposition of Contribution.- It will be imposed, collected and paid for each taxable year, instead of the tax imposed by Sections 1091.01 and 1092.02 of the Code, on the amount of such payments received or implicitly received, by a nonresident foreign individual, or any corporation or foreign corporation not engaged in industry or business in Puerto Rico, exclusively from sources within Puerto Rico, a contribution of twenty (20) percent.

(2) Withholding at Source and Deposit of Contribution.- Every exempt business that has the obligation to make payments to non-residents for the use of intangible property related to the operation exempted under this Act in Puerto Rico, shall deduct and retain it. in the origin, a contribution equal to that imposed in paragraph (1) of this section and deposit the withholding in accordance with the norms of sections 1062.08 and 1062.11 of the Code, as applicable.

(d) Deduction and Drag of Net Losses in Operations. -

(1) Deduction for Current Losses Incurred in Activities Not Covered by an Exemption Decree.- If an exempt business incurs a net loss in operations other than the operation declared exempt under this Act, it may be used only against income not covered by an exemption decree and will be governed by the provisions of the Code.

(2) Deduction for Current Losses incurred in the Exempt Business Operation.- If an exempt business incurs a net loss in the operation declared exempt under this Act, it may deduct said loss against its net income from opportunity zones that incurred the loss. or against your net income from opportunity zones of operations covered by other exemption decrees under this Act.

(3) Deduction for the Loss of Previous Years. A deduction will be granted for the carryover of losses incurred in previous years, as provided below:

TEXT APPROVED IN FINAL VOTE BY THE SENATE  
(NOVEMBER 8, 2018)

A-94

(A) The excess over the deductible losses under paragraph (2) of this section may be drawn against the net income from opportunity zones of subsequent taxable years. The losses will be carried in the order in which they were incurred.

(B) Any net loss incurred in a year in which the election of section (b) of Article 7 is in force, may be carried only against net income of opportunity zones by the exempt business, under the decree under which it was made the election of section (b) of Article 7 of this Law. The losses will be carried in the order in which they were incurred.

(C) Upon expiration of the exemption period for income tax purposes, the net losses incurred in the operation declared exempt under this Act, as well as any excess of the deduction allowed under subparagraph (B) of this subsection that is dragging the business exempted at the expiration date of said period may be deducted against any taxable income in Puerto Rico, subject to the limitations provided in Subtitle A of the Code. Said losses shall be considered as incurred in the last taxable year in which the exempt business holding a decree under this Act enjoyed a tax exemption on income under the decree.

(D) The amount of the net loss in operations to be carried shall be computed in accordance with the provisions of Section 1033.14 of the Code.

(e) Distributions of dividends or benefits. -

(1) Exemption.- Shareholders or partners of a corporation or corporation that is an exempt business will not be subject to income tax on distributions of dividends or profits from profits and profits generated by their net income from opportunity zones of said business. exempt. Subsequent distributions of the profits and profits generated by your net income from opportunity zones carried out by any corporation or corporation will also be exempt from all taxation. Provided, that the provisions of Section 1062.13 of the Code relating to the contribution on the implicit dividend and Section 1092.02 of the Code relating to the contribution on an amount equivalent to a dividend shall not be applicable to the exempt business.

(2) Imputation of Exempt Distributions.- The distribution of dividends or benefits made by an exempt business, even after the expiration of its tax exemption decree, shall be deemed to be made of the profits and benefits generated by its net income from opportunity zones if a The distribution date does not exceed the undistributed balance of said profits and benefits, unless said exempt business, at the time of the declaration, chooses to distribute the dividend or benefit, totally or partially, of other profits or benefits. The amount, year of accumulation and nature of the distribution made of the profits and benefits generated by the net income of opportunity zones will be the one

TEXT APPROVED IN FINAL VOTE BY THE SENATE  
(NOVEMBER 8, 2018)

A-94

designated by said exempt business by means of a notification sent together with the payment thereof to its shareholders or partners and to the Secretary of the Treasury, by informative declaration, no later than February 28 following the year of the distribution.

(3) Other exemptions.- Distributions of dividends or benefits of profits and profits generated by the net income of opportunity zones of an exempt business will not be subject to the following income taxes:

(A) minimum alternative contribution of Section 1022.03 of the Code;

(B) additional contribution to corporations and corporations of Section 1022.05 of the Code; Y

(C) alternate basic tax of individuals of Section 1021.02 of the Code, or any successor law of a similar nature.

(f) Sale or Swap of Assets.- No gain or loss shall be recognized by an exempt business in the sale or exchange of the assets made during its exemption period if the exempted business invests the entire amount made in the sale or exchange. as required by section 1400Z-2 (d) (1) of the Federal Internal Revenue Code.

(g) Exempt Swaps.- Swaps of assets that do not result in taxable events because they are exempt reorganizations will be treated in accordance with the provisions of the Code, in effect at the date of the swap.

(h) Exemption from Individuals, Inheritances, Corporations, Companies, Limited Liability Companies and Trusts in Respect of Paid or Accrued Interest on Bonds, Promissory Notes or Other Obligations of Certain Exempt Businesses.-

(1) Exemption.- Any individual, succession, corporation, partnership, limited liability company or trust shall be exempt from the payment of any tax imposed by the Code and patents imposed under the Municipal Patents Law on income derived from interest received with with respect to bonds, promissory notes or other obligations of an exempted business for the development, construction or rehabilitation of, or improvements to, an exempt business under this Act condition that the funds are used in their entirety for development, construction, or rehabilitation of, or improvements a, an exempt business and / or the payment of existing debts of said exempt business, as long as the funds from these existing debts have been originally used for the development, construction or rehabilitation of, or improvements to, said exempt business. Expenses incurred by a person carrying out an investment described herein shall not be subject to Sections 1033.17 (a) (5), 1033.17 (a) (11), and 1033.17 (f) of the Code with respect to such investment, and the income derived from it.

TEXT APPROVED IN FINAL VOTE BY THE SENATE  
(NOVEMBER 8, 2018)

A-94

(2) Direct relationship.- The proceeds of the bond, promissory note or other obligation must be granted directly to an exempt business.

Law 74-2010, known as the "Puerto Rico Tourism Development Act of 2010", Law 83-2010, known as the "Puerto Rico Green Energy Incentives Act", Law 273-2012, known as the "Regulatory Law of the International Financial Center", Law 399-2004, known as the "Insurance and Reinsurers Act of International Insurance of Puerto Rico" or any successor or analogous law to those previously described.

Credit drag.- Any credit for investment not used in a taxable year may be carried forward to subsequent taxable years until it is used in full.

(3) Maximum amount of credit.-

(A) Investment credit.- The maximum amount of investment credit that will be available for each Fund and exempt business in which the Fund invests may not exceed fifteen (15) percent of the sum of the following items:

(i) the cash contributed by the investors in exchange for shares or participations of a Fund that is contributed by the Fund to the exempt business in exchange for shares or participations of the exempt business, plus

(ii) the cash contributed by the investors to the exempt business, when said exempt business is taken to

Statements on movable property during the exemption period established in Article 7 of this Act. In the case of an Eligible Residential Strategic Project, the exemption shall be ninety (90) percent.

(2) The real property of the exempt business used in its development, organization, construction, establishment or operation, shall enjoy a fifty (50) percent exemption on the municipal and state taxes on the property during the exemption period established in the Article 7 of this Law. In the case of an Eligible Residential Priority Project, the exemption shall be ninety (90) percent.

(b) Property under construction or expansion.- The real property of an exempt business shall be totally exempt during the period authorized by the decree for the construction or establishment of said exempt business to be carried out and during the first fiscal year of the Government in that the exempt business would have been subject to property taxes for having been in operations at the 1st. January prior to the beginning of that fiscal year, except for the exemption provided herein. Likewise, the real property of said exempt business that is directly related to any expansion of the exempt business will be totally exempt from property tax during the period authorized by the decree to

TEXT APPROVED IN FINAL VOTE BY THE SENATE  
(NOVEMBER 8, 2018)

A-94

carry out the expansion. Once the period of total exemption established in this paragraph expires, the partial exemption provided in this Article will begin.

Article 6.- Municipal Patents and other Municipal Taxes.

(a) Exempted businesses shall enjoy a fifty (50) percent exemption on municipal patents, municipal taxes and other municipal taxes imposed by any municipal ordinance, during the periods provided in section (e) of Article 7 of this Law In the case of an Eligible Residential Strategic Project, the exemption will be ninety (90) percent.

(b) The portion taxable under subsection (a) of this Article shall be subject, during the term of the decree, to the tax rate that is in effect on the date of signature of the decree, independently of any subsequent amendment made to the decree to cover operations of the exempt business in one or several municipalities.

(c) The exempted business shall enjoy a total exemption on municipal taxes or municipal patents applicable to the turnover of said exempt business during the semester of the fiscal year of the Government in which the exempted business begins operations in any municipality, in accordance with provided in the Municipal Patents Law. In addition, the exempt business that holds a decree granted under this Act, shall be totally exempt from municipal taxes or patents on the volume of business attributable to said municipality during the two (2) semesters of the fiscal year or fiscal years of the Government following the semester. where he started operations in the municipality.

(d) Exempted businesses and their contractors and subcontractors shall be totally exempt from any tax, duty, license, excise tax (including construction taxes), rate or fee imposed by any municipal ordinance on the construction of works to be used by said exempt business within a municipality, without it being understood that said taxes include the municipal tax imposed on the turnover of the contractor or subcontractor of the exempt business, during the term authorized by the tax exemption decree.

Article 7.-Periods of Tax Exemption.-

(a) Exemption.- An exempt business shall enjoy a tax exemption for a period of fifteen (15) years.

(b) Flexible Tax Exemption.- Exempted businesses will have the option to choose the specific taxable years to be covered under their decrees as to their net income from opportunity zones as long as they notify the Secretary and the Director no later than the date provided by law to file your income tax return for said taxable year, including the extensions granted for this purpose. Once said exempt business opts for this benefit, its

TEXT APPROVED IN FINAL VOTE BY THE SENATE  
(NOVEMBER 8, 2018)

A-94

exemption period in terms of its net income from opportunity zones will be extended by the number of taxable years that it has not enjoyed under the exemption decree.

(c) Establishment of Operations in other Municipalities.- An exempted business may establish operations covered by a current exemption decree, in the same municipality where the main office is established, or in any other municipality of Puerto Rico, as long as it notifies the Exemption Office within thirty (30) days prior to the date of commencement of operations in the other municipality. The additional operations will enjoy the exemptions and benefits provided by this Act for the remainder of the exemption period of the current decree, as long as they are consistent with the operation covered by the exemption decree and the operations in the new municipality are located in an eligible area.

(d) Interruption of the Exemption Period.- An exempted business that has ceased operations and subsequently wishes to resume them, the time that was not operating will not be deducted from the corresponding exemption period that corresponds to it and may enjoy the remainder of its exemption period. while its decree of tax exemption is in effect, provided that the Director determines that said cessation of operations was for justified reasons and that the reopening of said exempt business would be in the best social and economic interests of Puerto Rico.

(e) Establishment of the Dates of Beginning of Operations and of the Periods of Exemption.-

(1) The exempted business may choose the date of commencement of operations for purposes of Section 4 of this Act by filing an affidavit with the Exemption Office, with a copy to the Secretary, expressing unconditional acceptance of the approved concession to the business. exempted under this Act. The date of commencement of operations for purposes of Article 4 of this Act may be the date of the first payroll for training or production of the exempt business that has a decree granted under this Act, or any date within a period of two (2) years after the date of the first payroll.

(2) The exempted business may postpone the application of the fixed contribution rate provided in Article 4 of this Act for a period not greater than two (2) years from the date of commencement of operations established under subsection (1) of this section (e). During the postponement period, said exempt business will be subject to the tax rate applicable under Subtitle A of the Code.

(3) The exemption period provided in subsection (a) of Section 5 of this Act for the exemption on movable and immovable property shall commence on the first day of the fiscal year of the Government of Puerto Rico subsequent to the last fiscal year in which

TEXT APPROVED IN FINAL VOTE BY THE SENATE  
(NOVEMBER 8, 2018)

A-94

the exempt business that possesses a decree granted under this Act was completely exempt, according to the provisions of subsection (b) of Article 5 of this Act. The partial exemption for said fiscal year shall correspond to the tax on the property owned by the exempt business the first January before the beginning of that fiscal year.

The partial exemption period provided in subsection (c) of Section 6 of this Act, for purposes of exempting municipal patents and any other municipal contribution, shall begin on the first day of the first semester of the fiscal year of the Government of Puerto Rico subsequent to the expiration of the total exemption period provided in said section. Provided, that in the case of exempt businesses that have been operating on a commercial scale before applying for the benefits of this Act, the date of commencement of operations for the effect of municipal patents shall begin on the first day of the semester following the date of filing of the request for tax exemption.

(5) In the case of exempted businesses that have been operating on a commercial scale before applying for benefits under this Act, the date of commencement of operations for purposes of the fixed income tax rate provided in Article 4 of this Act. Law will be the date of filing an application with the Office of decree that is considered pertinent. Once the controversy has been resolved, the Director will make the determination he deems appropriate and submit the case to the Secretary of Economic Development for final consideration.

(C) In the case of amendments to concessions approved under this Act, the period for the agencies and municipalities concerned to submit a report or opinion to the Director shall be twenty (20) days.

(D) Once the reports are received, or the terms for making said reports have expired, the Director shall submit the draft decree and its recommendation, for the consideration of the Secretary of Economic Development, within the following five (5) days.

(E) The Director may rely on the recommendations provided by those agencies or municipalities that submit reports or opinions and may request them to supplement them.

(F) The Secretary of Economic Development shall issue a final determination, in writing, within a term not to exceed five (5) days from the date the draft decree is submitted for consideration.

(G) The Secretary of Economic Development may delegate to the Director those functions that he deems convenient in order to facilitate the administration of this Act, except for the function of approving or denying original concessions for tax exemption. Renegotiations and Conversions. -

TEXT APPROVED IN FINAL VOTE BY THE SENATE  
(NOVEMBER 8, 2018)

A-94

(1) Renegotiation of Current Decrees. -

(A) Any exempt business may request the Secretary of Economic Development to consider renegotiating its current decree if said exempted business demonstrates that it will increase the average employment it has had during the three (3) tax years prior to the filing date of the application. in twenty-five (25) percent or more; or that it will make a substantial investment in its existing operation that will help maintain economic and employment stability and that represents an increase of twenty-five (25) percent or more in the investment of property used in the exempt business that is land, buildings or structures , machinery or equipment.

(i) If said exempted business demonstrates to the satisfaction of the Secretary of Economic Development that it can not comply with the requirements of increase in average employment or investment described above, it shall submit the necessary evidence to the Exemption Office. The Secretary of Economic Development, upon favorable recommendation of the Secretary of the Treasury, and after the recommendation of the agencies that report tax exemption, may at its discretion, consider the renegotiation taking into account any other factor or circumstance that reasonably demonstrates that the The renegotiation of his decree will be in the best social and economic interests of Puerto Rico.

(ii) For the purposes of this Article, the employment of said exempt business shall consist of the number of individuals resident in Puerto Rico who work permanently on a full-time regular basis in the exempt business, providing services as an employee, even if they are not directly in the business. Exempt business payroll (such as persons provided by personnel lease contract, but will not include persons such as consultants or independent contractors).

(iii) For purposes of this Article, the investment of the exempt business in its existing operation shall be computed according to the value in the books of the property, computed with the benefit of the depreciation admissible under the straight-line method, taking into account the the useful life of said property determined in accordance with Subtitle A of the Code, rather than any other accelerated depreciation permitted by law.

(iv) To agree to carry out the renegotiation requested, the Secretary of Economic Development, upon recommendation of the agencies that report tax exemption, will take into consideration the number of jobs of the exempt business, the place where it is located, the investment and additional employment, as well as the remainder of the period of its decree, the tax benefits already enjoyed and its financial capacity, so that

the exempted business can obtain a new decree with tax benefits adjusted under this Act.

(v) The Secretary of Economic Development shall establish the terms and conditions that it deems necessary and convenient to the best interests of Puerto Rico, within the limits set forth in this Act, and may at its discretion, upon recommendation of the agencies that render reports on tax exemption, impose special employment requirements, limit the period and percent exemption, limit the contributions to be exempt, and require and dispose of any other term or condition that is necessary for the purposes of economic development proposed by this Act.

(vi) When the exempt business, interested in renegotiating its decree, does not comply with the employment or investment increase requirements set forth in this section, the Secretary of Economic Development may, prior to the favorable recommendation of the Secretary, and of the rendering agencies. reports on tax exemption, impose a fixed tax rate on income greater than that imposed in the exempt business decree.

(c) Denial of Requests. -

(1) Denial if it is not for the Benefit of Puerto Rico. - The Secretary of Economic Development shall deny any request when it determines that the concession does not result in the best economic and social interests of Puerto Rico, after considering the nature of the physical facilities, the number of jobs, the amount of the payroll and the investment , the location of the project, its environmental impact, or other factors that in its judgment merit such determination, as well as the recommendations of the agencies that report on tax exemption.

(A) The petitioner, after being notified of the denial, may request a reconsideration from the Secretary of Economic Development, within sixty (60) days of receiving the notification, citing the facts and arguments regarding his request that he understands do, including the offer of any consideration for the benefit of Puerto Rico that it deems to be worthy of your request for reconsideration.

(B) In case of reconsidering the request, the Secretary of Economic Development may accept any consideration offered for the benefit of Puerto Rico and may require and dispose of any other term or condition that is necessary to ensure that said concession will be in the best interests of Puerto Rico. Rico and the purposes of economic development proposed by this Law.

(2) Denial of Conflict with Public Interest.- The Secretary of Economic Development shall deny any request when it determines, based on the facts presented for its consideration and after the applicant has had the opportunity to offer a complete

TEXT APPROVED IN FINAL VOTE BY THE SENATE  
(NOVEMBER 8, 2018)

A-94

presentation on the issues in controversy. , that the request is in conflict with the public interest of Puerto Rico because the requesting business has not been organized as a bona fide business on a permanent basis, or in view of the moral or financial reputation of the people who constitute it, the plans and methods to obtain financing for the applicant business, the nature or proposed use of the products or services of the applicant business, or any other factor that may indicate that there is a reasonable possibility that the granting of the exemption will be detrimental to the economic and social interests of the applicant. Puerto Rico.

Article 9.-Transfer of the exempt business.

(a) Exempt Business Transfer.-

(1) General Rule. - The transfer of a decree, or shares, property or other property interest in an exempt business must be previously approved by the Director. If the same is carried out without prior approval, the decree will be canceled from the date on which the transfer occurred, except in the cases that are listed in paragraph (2) of this section. Notwithstanding the foregoing, the Director may retroactively approve any transfer made without its prior approval, when in its judgment, the circumstances of the case so warrant, taking into consideration the best interests of Puerto Rico and the purposes of this Act.

Exceptions.- The following transfers will be authorized without prior consent:

(A) The transfer of the property of a decedent to his hereditary estate or the transfer by legacy or inheritance.

(B) The transfer within the provisions of this Act.

(C) The transfer of shares or any social participation when such transfer does not result directly or indirectly in a change in the domain or control of an exempt business that has a decree granted under this Act.

(D) The transfer of shares of a corporation that owns or operates an exempt business when it occurs after the Secretary of Economic Development has determined that any transfers of shares of such corporation will be permitted without its prior approval.

(E) The pledge, mortgage or other guarantee for the purpose of responding to a "bona fide" debt. Any transfer of control, title or interest under said contract shall be subject to the provisions of subsection (a) of this Section.

(F) Transfer by operation of law, by order of a court or by a bankruptcy judge to a trustee or fiduciary. Any subsequent transfer to a third party that is not the same debtor or previous debtor shall be subject to the provisions of subsection (a) of this Article.

TEXT APPROVED IN FINAL VOTE BY THE SENATE  
(NOVEMBER 8, 2018)

A-94

(G) The transfer of all the assets of an exempt business that has a decree granted under this Act, to an affiliated business. For the purposes of this paragraph, affiliated businesses are those whose shareholders or partners hold in common the eighty (80) percent or more of the shares, or of the shares with voting rights, issued and in circulation of said exempt business.

(3) Notification.- Any transfer included in the exceptions of this section shall be informed by the exempt business that holds a decree granted under this Act, to the Director, with a copy to the Secretary of Economic Development and the Secretary, within thirty (30 ) following days except those included under paragraph (D) of subsection (2) that do not become a shareholder in a holder of ten percent (10%) or more of the issued capital of the corporation, and those included under paragraph (G) ) of subsection (2), which must be informed by the exempt business to the Director, with a copy to the Secretary, prior to the date of the transfer.

Section 10.-Permit and Mandatory Revocation.

(a) Permissive Revocation.- A decree may be revoked by the Secretary of Economic Development:

(1) When the exempted business does not comply with any of the obligations that have been imposed by this Law or its regulations, or by the terms of the exemption decree.

(2) When the exempted business does not begin, or does not complete the construction of the facilities necessary for the activities it proposes to carry out, or the provision of the services it intends to provide, or when the activity does not begin within the period established for those purposes in the decree.

(3) When the exempted business suspends its operations for more than thirty (30) days without the express authorization of the Secretary of Economic Development. Provided, That the Secretary of Economic Development may authorize such suspensions for periods greater than thirty (30) days when they are motivated by extraordinary circumstances.

(b) Mandatory Revocation.-

(1) The Secretary of Economic Development shall revoke any decree granted under this Act when it has been obtained by false or fraudulent representations about the nature of the eligible business, or any other facts or circumstances that, in whole or in part, caused the concession of the decree.

(2) It shall be grounds for revocation under this subsection, in addition, when any person commits, or attempts to commit, on its own or in the name of any other person,

TEXT APPROVED IN FINAL VOTE BY THE SENATE  
(NOVEMBER 8, 2018)

A-94

a violation of the provisions relating to the successor business or exempted business predecessors.

(3) When the exempted business fails to comply with its tax liability under the Code and other tax laws of Puerto Rico, when the breach is duly certified by the Secretary.

(c) Procedure.- In cases of revocation of a decree granted under this Act, the concessionaire shall have the opportunity to appear and be heard before the Director or before any Special Examiner of the Exemption Office designated for that purpose, who shall inform its conclusions and recommendations to the Secretary of Economic Development, previous the recommendation of the agencies that render reports of tax exemption.

(d) Effect of the Revocation.- In case of revocation, all net income computed, previously reported as net income of opportunity zones, that has or has not been distributed, as well as all distributions thereof, will be subject to the taxes imposed under the provisions of the Code. The taxpayer, in addition, will be considered as having filed a false or fraudulent return with the intention of avoiding the payment of contributions and, therefore, will be subject to the criminal provisions of the Code. The contribution owed in such case, as well as any other contributions previously exempted and not paid, shall be due and payable from the date on which such contributions have expired and would have been payable, except by the decree, and shall be imputed and collected by the Secretary, in accordance with the provisions of the Code.

Article 11.-Nature of the Decrees.-

(a) In general.- The decrees issued under this Act shall be considered a contract between the exempt business, its shareholders, partners or owners and the Government of Puerto Rico, and such contract shall be the law between the parties. Said contract shall be interpreted liberally, in a manner consistent with the purpose of this Act to promote the socioeconomic development of Puerto Rico. The Secretary of Economic Development has discretion to include, on behalf of and on behalf of the Government of Puerto Rico, those terms and conditions, concessions and exemptions that are consistent with the purpose of this Act and that promote job creation through socioeconomic development. of Puerto Rico, taking into consideration the nature of the petition or action requested, as well as the facts and circumstances related to each particular case that may be applicable.

(b) Obligation to Comply with the Represented in the Application.- Every exempt business that possesses a decree granted under this Act, will carry out its exempt operations substantially as they were represented in its application, except when they

TEXT APPROVED IN FINAL VOTE BY THE SENATE  
(NOVEMBER 8, 2018)

A-94

have been varied by means of authorized amendments. by the Secretary of Economic Development in accordance with the provisions of this Act.

Article 12.-Administrative Decisions- Purpose.-

(a) All decisions and determinations of the Committee, regarding the designation of an activity as a Priority Project in areas of opportunity, or the Secretary of Economic Development, regarding the granting of the decree and its content, will be final and against no judicial or administrative review or other remedy shall proceed, unless specifically provided otherwise. Provided, that once a decree has been granted under this Act, no agency, public instrumentality, political subdivision, public corporation, or municipality, whether autonomous or not, of the Government of Puerto Rico other than the Secretary of Economic Development or the Governor, may challenge the legality of said decree or any of its provisions.

(b) Any concessionaire adversely affected or harmed by any action taken by the Secretary of Economic Development, revoking and / or canceling a decree of exemption in accordance with subsection (b) of Article 10 of this Act, shall have the right to judicial review of the same by filing an appeal for review before the Court of Appeals of Puerto Rico, within thirty (30) days after the final decision or adjudication of the Secretary of Economic Development. During the processing of the judicial review, the Secretary of Economic Development is authorized, when in his judgment the justice requires it, to postpone the date of effectiveness of any action taken by him under those conditions that are required and in the extremes that are necessary to avoid irreparable damage. When such a postponement is requested and denied, the court before which the review is requested, including the Supreme Court of Puerto Rico, through a writ of certiorari, may order any necessary and appropriate process to postpone the effective date of any action taken by the Secretary of Economic Development to preserve the status or right of the parties until the completion of the review procedures, prior provision of bail in favor of the Secretary of the Treasury for the amount of contributions not paid until then, plus interest and penalties, plus interests computed for the period of one (1) year at the prevailing legal rate. Any decision or judgment of the Court of Appeals of Puerto Rico shall be subject to review by the Supreme Court of Puerto Rico by means of certiorari requested by any of the parties in the manner provided by law.

(c) The members of the Committee and the employees and employees with functions related to the Committee shall not incur civil liability for any action or omission in the performance of their duties under this Act, except when there is conduct constituting a crime or gross negligence. .

TEXT APPROVED IN FINAL VOTE BY THE SENATE  
(NOVEMBER 8, 2018)

A-94

Article 13.-Periodic Reports to the Committee.

(a) In General.- Annually, and independently of any other report required by law, the Director, in consultation with the Secretary, the Secretary of Economic Development and the Planning Board, shall report to the Committee on the economic and fiscal impact of this Act. Said report shall be submitted within one hundred and eighty (180) days after the close of each fiscal year. The aforementioned report shall contain the information that the Committee publishes through a circular letter or other publication of general circulation.

Article 14.-Reports Required to Exempt Businesses and their Shareholders or Partners.

(a) Every exempt business shall file annually with the Secretary an income tax return, regardless of the amount of its gross or net income, separate from any other form that for other reasons it is obliged to render in relation to the operations of the industry covered by the benefits provided in this Act, and in accordance with the Internal Revenue Code of Puerto Rico. The Secretary may share with the Tax Exemption Office the information received, provided that the confidentiality of said information is protected.

(b) Every shareholder or partner of an exempted business that holds a decree granted under this Act, shall submit annually to the Department of the Treasury an income tax return in accordance with the provisions of the Internal Revenue Code of Puerto Rico, provided that under said Code had the obligation to do so.

(c) The exempted business shall have the obligation to keep in Puerto Rico, separately, the accounts related to its operations, as well as the records and records that may be necessary, in addition to rendering and submitting the sworn statements and complying with the rules and regulations. regulations in force for the due fulfillment of the purposes of this Act and that the Secretary may prescribe from time to time in relation to the imposition and collection of all kinds of contributions.

(d) Every exempt business shall file annually in the Exemption Office, with a copy to the Secretary, no later than thirty (30) days after the date prescribed by law for the filing of the corresponding income tax return, including extensions. granted for this purpose, an authenticated report with the signature of the President, managing partner, or his authorized representative. Said report shall contain a list of data that reflect compliance with the conditions established in the decree with the information that may be required in the form that is promulgated for these purposes or that is required by Regulation.

This report shall be accompanied by the rights established by the Regulations and shall be paid by postal or bank draft or certified check or by electronic means in the name of

TEXT APPROVED IN FINAL VOTE BY THE SENATE  
(NOVEMBER 8, 2018)

A-94

the Secretary of the Treasury. The information offered in this annual report will be used for the purposes of statistics and economic studies, as provided in this Act. Likewise, the Exemption Office shall carry out at least two (2) years, a compliance audit regarding to the terms and conditions of the decree granted under this Act.

(e) The Director may impose an administrative fine of ten thousand (10,000) dollars on any exempt business that fails to file any of the reports required by the Secretary or the Director, in accordance with the provisions of paragraphs (a) to (e) of this Article, or that it is filed after the expiration date. The Exemption Office may initiate a civil action for the collection of said administrative fine in the General Court of First Instance of Puerto Rico, Superior Section, San Juan Chamber, which shall have exclusive jurisdiction to hear in that proceeding. The filing of an incomplete report shall be considered as not filed, if the agency concerned notifies the business exempt of any omission in the required report and said exempted business does not submit the missing information within fifteen (15) days of being notified, or does not reasonably justify the lack of it.

Article 15.-Regulations Under this Law.

To make effective the provisions and purposes of this Act, the Secretary of Economic Development, in consultation with the Secretary, will approve those regulations that are necessary to govern all matters concerning the manner and manner in which the decrees contemplated herein will be requested and granted. The Secretary shall approve regulations, in consultation with the Secretary of Economic Development, in relation to the concession and assignment or sale of tax credits under Article 4 of this Act. These regulations shall also be subject to the provisions of Law 38- 2017, known as the "Uniform Administrative Procedures Act of the Government of Puerto Rico".

The Secretary may issue regulations, administrative determinations, circular letters or general information bulletins on everything related to the performance of the exempted business and the Fund with the provisions of the Code and this Law.

Section 16.-Application of the Internal Revenue Code of Puerto Rico.

The Code shall apply in a supplementary manner to the extent that its provisions are not in conflict with the provisions of this Act.

Article 17.-Special Process for the Evaluation and Granting of Permits.

(a) Special Process.- Government agencies with interference in the processing of permits, consultations, licenses, franchises, or certifications for Priority Projects in areas of opportunity shall be governed by the provisions of this Act and shall be exempted from compliance with the terms and procedures established in Act 161-2009, as

TEXT APPROVED IN FINAL VOTE BY THE SENATE  
(NOVEMBER 8, 2018)

A-94

amended, known as the "Puerto Rico Permits Amendment Act", Act No. 75 of June 24, 1975, as amended, known as "Ley Organic of the Planning Board of Puerto Rico ", Law 81-1991, known as the" Autonomous Municipalities Act of the Commonwealth of Puerto Rico of 1991 "and Act 38-2017, as amended, known as the" Law of Procedure Administrative Uniform of the Government "and the regulations promulgated under them. The substantive requirements applicable to permits, consultations, licenses, franchises, consultations or certification will be those established by law or regulation that governs the referred procedure.

(b) Jurisdiction.- Independently of the provisions of any other law, any request for permission for a Priority Project in areas of opportunity will be evaluated by the Permit Management Office (OGPe), regardless of the location of the same and any agreement. of transfer of hierarchies that exist with the municipality where it locates.

(c) Deadline for Comments.- The agencies or municipalities to which the OGPe requests comments, will have the non-extendable term of ten (10) working days from the request for comments to present them. If no answer is received, once said term of ten (10) working days has elapsed, the proposal shall be deemed favorable.

(d) Deadline for Processing Environmental Documents.- A term of twenty (20) working days is established, from the moment in which the environmental document is filed for a Priority Project in areas of opportunity for the OGPe to express its agreement or objection. according to the provisions of Article 4 (B) (3) of Law 416-2004, as amended, known as or "Law on Environmental Public Policy". This term may be extended by the OGPe when the environmental document submitted is incomplete, when additional information is needed or for other meritorious reasons. .

(1) The evaluation and final determination regarding the environmental document will be carried out by an Interagency Subcommittee on Environmental Compliance to be created by the Governor through an Executive Order, whose representatives will have the power to evaluate and adjudicate the possible environmental impacts that the projects to be developed. In extraordinary situations, the majority vote of the Interagency Subcommittee may extend the term to evaluate and adjudicate possible environmental impacts for a period not exceeding forty-five (45) days. If the Interagency Environmental Compliance Subcommittee has not been created, the Interagency Environmental Compliance Subcommittee that has been created by the Governor pursuant to Act 76-2000, as amended, is authorized to carry out the procedures authorized under this Article.

TEXT APPROVED IN FINAL VOTE BY THE SENATE  
(NOVEMBER 8, 2018)

A-94

(e) Deadline for evaluating Location Consultation.- Once the Priority Project in areas of opportunity has obtained the environmental compliance certification pursuant to Article 4 (B) (3) of Law 416-2004, as amended, the OGPe shall have thirty (30) working days to evaluate the location query submitted for said project, if any.

(f) Deadline for other Development Permits. - Permits for urbanization, construction, segregation (lotification) and others for the development of the Priority Project in areas of opportunity, other than a location consultation and the other individual, general or consolidated permits. under the jurisdiction of OGPe, they will be evaluated by the OGPe, which will have ten (10) working days to evaluate them once the request for the corresponding permit is satisfactorily filed.

Notifications.- In any procedure in which it is required to notify interested parties, the publication of a single notice in two (2) newspapers of general circulation will suffice. In addition, a sign shall be placed in a place with prominent exposition indicating, among other things, the purpose of the work or project, the address on the Internet and the telephone number of the relevant agency.

(h) Regulations and Administrative Orders.- The Office of Permit Management (OGPe) is authorized to establish alternative procedures to expedite the granting of permits, licenses, endorsements, consultations or certifications related to Priority Projects in areas of opportunity, in harmony with the requirements of this Law. During the period that such procedures have not been established, the OGPe is authorized to apply the procedures established in the regulations that it has adopted pursuant to Law 76-2000, as amended, applying the terms established in this Law. In addition, government agencies are authorized to issue administrative orders that are necessary to enforce and comply with the purposes of this Act.

(i) Priority.- The projects that will be carried out under the provisions of this Law will have priority in the programming of all government agencies. However, projects that qualify as emergency according to Law 76-2000, as amended, will have priority over Priority Projects in areas of opportunity to be presented at the same time.

(j) Request for Revision and Stop Order.- The party adversely affected by any resolution or order issued by OGPe or any other agency with interference shall have as sole remedy to submit a request for review before the Court of Appeals. Any request for judicial review of the administrative agency concerned must be submitted to said court, within the jurisdictional term of twenty (20) calendar days, counted from the date on which the copy of the notification of the resolution or final order is filed in the case file. from the agency. The appellant shall notify the request for review to the respondent

TEXT APPROVED IN FINAL VOTE BY THE SENATE  
(NOVEMBER 8, 2018)

A-94

agency and all interested parties within the established term; provided, that compliance with said notification shall be of a jurisdictional nature.

(1) If requested by the Court of Appeals, the administrative agency in question shall submit to the Court of Appeals the case records, within ten (10) calendar days following the order of the Court. The Court of Appeals shall attend the review as provided in Articles 13.1 (b) and 13.1 (c) of Act 161-2009, as amended.

(2) The issuance of a review order shall not paralyze the authorization or execution of a work or the implementation of a rule, regulation, order, resolution, determination, processing, grant or validity of any permit, license, endorsement or certification of an agency or official; the awarding of an auction or the granting of a contract issued or arising around the projects that are to be carried out, unless the court orders it expressly to prevent irreparable damage, after considering a motion in support of jurisdiction to such effects. For the court to issue such an order, the appellant must prove that it is indispensable to protect the jurisdiction of the court; that has a high probability of prevailing in the merits; that the stop order will not cause substantial harm to the other parties; that will not harm the public interest; that there is no reasonable alternative to avoid the alleged damages; and that the damage can not be compensated through the granting of a monetary remedy or any other adequate remedy in law, all in accordance with the provisions of the Code of Civil Procedure of 1933.

(3) Any court order may only affect that component or components of the project that is the subject of controversy in the case and where substantial damage is involved. For purposes of this Act, the term Priority Projects in opportunity zones shall include projects agreed upon in an Alliance Contract in accordance with Act 29-2009, as amended, known as the "Puerto Rico Public-Private Partnerships Act".

Article 18.-Interrelation with other laws.

The provisions of this Law may not be used in conjunction with other laws of economic or contributory incentives, so that the result of the joint use of the laws is the obtaining of tax benefits, or of any other nature, that exceed the benefits which would be entitled under any

taxpayer and a person not related to the taxpayer's choice-

(A) Your gross income for a taxable year, for the purposes of Section 1031.01, shall not include the portion of such gain that does not exceed the aggregate amount invested by said taxpayer in an eligible opportunity fund within one hundred and eighty (180) days counted from the day of such sale or exchange;

TEXT APPROVED IN FINAL VOTE BY THE SENATE  
(NOVEMBER 8, 2018)

A-94

(B) The amount of the profit not included in the gross income under subsection (A) shall be included in the gross income as provided in section (b), and

(C) shall apply section (c) of this Section.

(2) Treatment of capital gains for purposes of subsection (b) of Section 1022.04. - For purposes of subsection (b) of Section 1022.04, the amount of capital gain not included under subsection (A) of paragraph (1) of section (a) will not be part of the "adjusted net income according to the books" of the taxpayer.

(3) Election. - No election may be made under paragraph

(1) -

(A) with respect to the sale or exchange if an election previously made in connection with such sale or exchange is in effect, or

(B) with respect to any sale or exchange made after December 31, 2026.

(b) Deferral of the capital gain invested in an eligible opportunity fund.

(1) Year of inclusion. - The profit to which subsection (B) of paragraph (1) of subsection (a) applies shall be included in the gross income of the taxable year that includes the earliest of:

(A) the date on which the investment in the eligible opportunity fund is sold or exchanged; or

(B) on December 31, 2026.

(2) Amount to be included in gross income.

(A) In general. The amount of the capital gain to be included in the taxpayer's gross income under paragraph (1) of this section shall be the excess of:

(i) the lesser amount of the capital gain excluded under subsection (A) of paragraph (1) of subsection (a) or the fair market value of the investment, as determined on the date described in the paragraph (1) of this section, about

(ii) the taxpayer's base in the investment in the eligible opportunity fund.

(B) Determination of the taxpayer's base in the investment in the eligible opportunity fund.

(i) In general. Except as otherwise provided in this clause or in section (c), the base of the taxpayer in the investment in the eligible opportunity fund shall be zero.

(ii) Increase due to the capital gain recognized under paragraph (1) of section (b). The base of the taxpayer in the investment in the eligible opportunity fund will be increased by the amount of the profit included in the gross income under paragraph (1) of section (b) with respect to said property.

TEXT APPROVED IN FINAL VOTE BY THE SENATE  
(NOVEMBER 8, 2018)

A-94

(iii) Investments in an eligible opportunity fund held for five (5) years. In the case of any investment in the eligible opportunity fund owned for at least five (5) years, the basis of said investment shall be increased by an amount equal to ten (10) percent of the amount of the deferred profit under subsection ( A ) of paragraph (1) of section (a).

(iv) Investments in an eligible opportunity fund held for seven (7) years. In the case of any investment in the eligible opportunity fund owned by the taxpayer for at least (7) years, the basis of said property will be increased, in addition to any adjustment made pursuant to clause (iii), by an amount equal to five (5) percent of the deferred earnings under subsection (A) of paragraph (1) of subsection (a).

(3) Treatment of capital gains for purposes of subsection (b) of Section 1022.04.- For the purposes of subsection (b) of Section 1022.04, the amount of the gain recognized as gross income under paragraph (1) of section (b) will be included in the "adjusted net income according to books" of the taxpayer.

(c) Special rule for investments in an eligible opportunity fund held for at least ten (10) years.- In the case of an investment in an eligible opportunity fund owned by the taxpayer for at least ten (10) years and in to which the taxpayer made an election under this section, the base of the taxpayer in the investment in the eligible opportunity fund will be equal to its fair value in the market at the date of the sale or exchange.

(d) Definitions.

(1) Eligible opportunity fund.- The term "eligible opportunity fund" means an entity that meets the following requirements:

(A) the entity is an opportunity fund qualified under Section 1400Z-2 of the Internal Revenue Code of the United States of 1986, as amended, and

(B) the ownership of the entity, or of a corporation or a company in which the entity acquires shares or interests in a company, located in the qualified opportunity zone (according to that term is defined in paragraph (2) of section (d) ) of Section 1400Z-2 of the Internal Revenue Code of the United States of 1986, as amended) and consists of property located in Puerto Rico.

(2) Taxpayer.-

(A) In general.- The term "taxpayer" means an individual, trust, estate, corporation, society or a corporation of individuals.

(B) Special rules for corporations and corporations of individuals.- In the case of a portion of a capital gain derived by a corporation or a corporation of individuals and with respect to which the corporation or corporation of individuals does not make an election under the paragraph (1) of subsection (a), the partners or shareholders of a

TEXT APPROVED IN FINAL VOTE BY THE SENATE  
(NOVEMBER 8, 2018)

A-94

corporation or corporation of individuals may be treated as a taxpayer with respect to their distributable shares in said gain and make an election under paragraph (1) of subsection (a) . In these cases, the one hundred and eighty (180) days period prescribed in subsection (A) of paragraph (1) of section (a) shall begin on the day following the last day of the taxable year of the corporation or corporation of individuals.

(e) Applicable rules.

(1) Treatment of investments with mixed funds.- In the case of any investment in an eligible opportunity fund in which the election under subsection (a) is in effect only with respect to a portion of the investments in said fund. Eligible opportunity-

(A) said investment in the eligible opportunity fund shall be treated as two (2) separate investments consisting of:

(i) one (1) investment that only includes amounts for which the election under subsection (a) applies, and

(ii) one (1) separate investment consisting of other amounts, and

(B) Sections (a), (b) and (c) shall only apply to the investment described in clause (i) of subsection (A).

(2) Related persons.- For the purposes of this section, a person is related to another if said persons are described in section (b) of Section 1010.05 or are persons described in section (b) of Section 1033.17, determined substituting "twenty (20) percent" for "fifty (50) percent" on each occasion that is used in such sections.

(3) Finados.- In the case of a decedent, amounts recognized under this section shall be included in the gross income as provided in Section 1032.03, if they were not properly included in the deceased's gross income.

(4) Regulation.- The Secretary shall promulgate the necessary or appropriate regulations to achieve the purposes of this section, including-

(A) rules for the certification of eligible opportunity funds for the purposes of this section, and

(B) rules to prevent abuse. "

Section 21.- Section (a) of Section 5 of Act 22-2012, known as the "Act to Encourage the Transfer of Investor Individuals to Puerto Rico", is hereby amended to read as follows:

"Article 5.- Special Contribution to Resident Investor Individual on Long Term Net Capital Gain.-

(a) Appreciation prior to becoming a resident of Puerto Rico.- Except as provided by Section 1031.06 of the Code, the portion of the net long-term capital gain generated by a Resident Investor Individual that is attributable to any appraisal they may have.

TEXT APPROVED IN FINAL VOTE BY THE SENATE  
(NOVEMBER 8, 2018)

A-94

securities owned by the latter before becoming a resident of Puerto Rico, which is recognized after ten (10) years of becoming a resident of Puerto Rico, and before January 1, 2036, shall be subject to the payment of a contribution of five percent (5%), in lieu of any other taxes imposed by the Code, and will not be subject to the alternate basic tax provided by Subtitle A of the Code. If said appreciation is recognized at any other time, the net long-term capital gain in relation to said securities will be subject to the payment of income taxes in accordance with the tax treatment provided in the Code, including the provisions of Section 1031.06 of the Code. . The amount of this net long-term capital gain will be limited to the portion of the gain that relates to the appreciation of the securities while the Resident Investor Guy lived outside of Puerto Rico. Provided, that for taxable years commenced after December 31, 2016, said capital gain shall be considered income from sources outside of Puerto Rico for purposes of the income tax provided in the Code. "

Article 22.-Article 3 of Law 185-2014, as amended, known as the "Private Capital Fund Law" is hereby amended to read as follows:

"Article 3.-Eligibility.

(to) ...

(one) ...

...

(10) In the case of a foreign company or foreign limited liability company, eighty (80) percent or more of its gross income is generated by the activities of the office of said entity in Puerto Rico. "

Article 23.-Article 4 of Law 185-2014, as amended, known as the "Private Capital Fund Law" is hereby amended to read as follows:

"Article 4.-Election of Private Capital Fund

(a) Any entity that meets the eligibility requirements mentioned in Article 3 of this Act may elect to be treated as a Fund only if it is considered as a registered merchant for purposes of subtitle D of the Code and notifies such election to the Secretary of the Treasury. no later than the last day of the third month from the date of creation of the Fund. The Secretary of the Treasury through regulation, circular letter, administrative determination or any other document of a general nature shall establish the manner and manner in which the entity shall make the election to be treated as a Fund, including requiring that the election be submitted by electronic means.

(b) ... "

Article 24.-A new Article 84A is added to Law 19-2017 that reads as follows:

TEXT APPROVED IN FINAL VOTE BY THE SENATE  
(NOVEMBER 8, 2018)

A-94

"Article 84A.-Priority of Strategic Projects.

For projects declared as strategic under Article 84 of this Law, the OGPe will establish terms and procedures to address them promptly.

Only projects declared as strategic will be prioritized, those that qualify as emergency according to Law 76-2000, as amended, and Priority Projects in Opportunity Zone under the "Law of Development of Opportunity Zones and Economic Development of Puerto Rico de 2018 ", in that order.

Until a Regulation on the processes and terms to speed up strategic projects is adopted, the terms set forth in the "Act on the Development of Economic Opportunity and Development Areas of Puerto Rico of 2018" will apply.

Article 25.-Rules for the interpretation of the Law.

The provisions of this Law shall be interpreted liberally with the purpose of promoting the development and implementation of the public policy set forth in its Statement of Motives and Public Policy Statement and carry out any other purposes set forth in this Act.

Article 26.-Severability and Rules of Interpretation in Case of Other Conflicting Laws.

If any Section, paragraph, paragraph, clause, clause, phrase or part of this Act is declared unconstitutional by a court of competent jurisdiction, the judgment issued for that purpose shall not affect, prejudice or invalidate the rest of this Act, its effects being limited to the section, paragraph, paragraph, clause, clause, phrase or part of this Law that was thus declared unconstitutional.

Article 27.-Validity Clause.

This Act will begin immediately after its approval.