

PUERTO RICO INCENTIVES CODE ACT 60-2019

Software as a Product vs. Software as a Service

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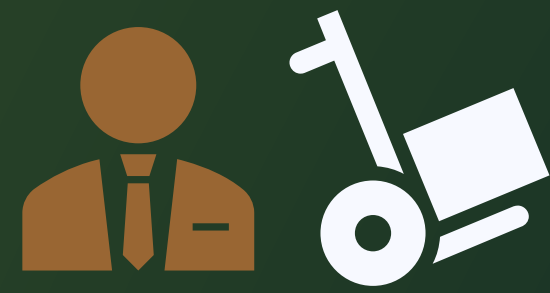


PUERTO RICO
IT CLUSTER

DEPARTAMENTO DE
DESARROLLO ECONÓMICO
Y COMERCIO
DDEC



Sectors Impacted by Software



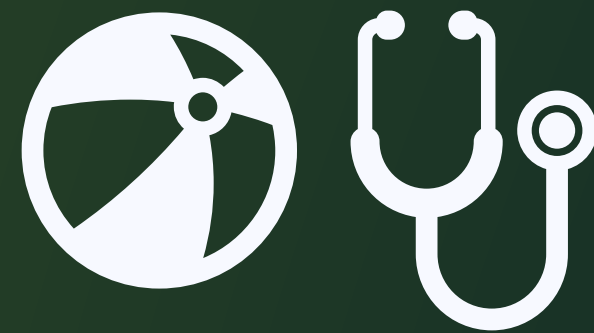
1. Export Services and Trade



Manufacturing / 2. Software / R+D / IP



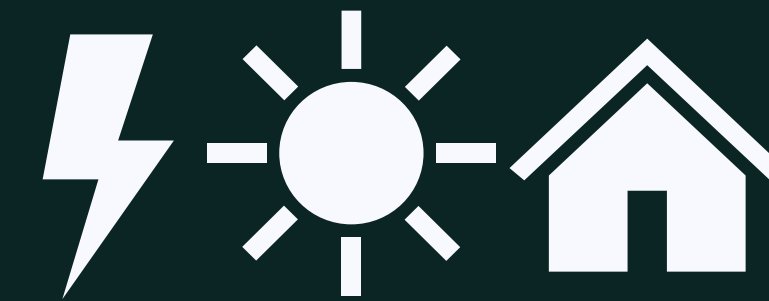
3. Entrepreneurship



Visitors Economy



Financial and Insurance



Infrastructure
Power / Green Energy / Housing



Agroindustry



Creative Industries



Opportunity Zones



Individuals

Export of Services

1

Export of Services

1. R+D
2. Advertising & PR
3. Technical Consulting
4. Business Consulting
5. Services to Creative Industries
6. Drafting and PM
7. Professional Servs
8. Management Servs.
9. Data Processing
10. Software Development
11. Cloud Computing
12. Telecomm
13. Call Centers
14. Shared Services
15. Education/Training
16. Medical Tourism
17. Investment Mgt.
18. Marketing Centers
19. Promoter (requires DDEC Secretary's approval)

Section 2031.01 Export of Services

Software Development Services

(10) Computer software development (Customized software services).

Cloud Computing

(11) Distribution, whether it is physical, online, through the cloud, or related to blockchain technology, and the income earned from the licensing, program subscriptions, or services fees.

Software as a Service Business Models

Render a service to the end user...



Manufacturing

2

Export of Services

1. Manufacturing
2. Mfg. previously not eligible
3. Twin plant ops.
4. Services to Business Clusters
5. Industrial property
6. Animal Breeding for research

7. Research + Development

(continuous improvements and contract research are excluded)

8. Recycling (partial or total)
9. Hydroponics, aquaculture, pasteurization, agroindustry operations

10. Added-value operations at the ports

11. Software development

12. Satellites launching

13. Intellectual Property

14. MRO of aircraft and boats.
15. Videogames

Section 2061.01

Businesses Engaged in Manufacture

Research and Development

(7) Any business engaged in scientific or industrial research and development to develop new products, or to develop new industrial services or processes through basic or applied experimentation.

Software Development

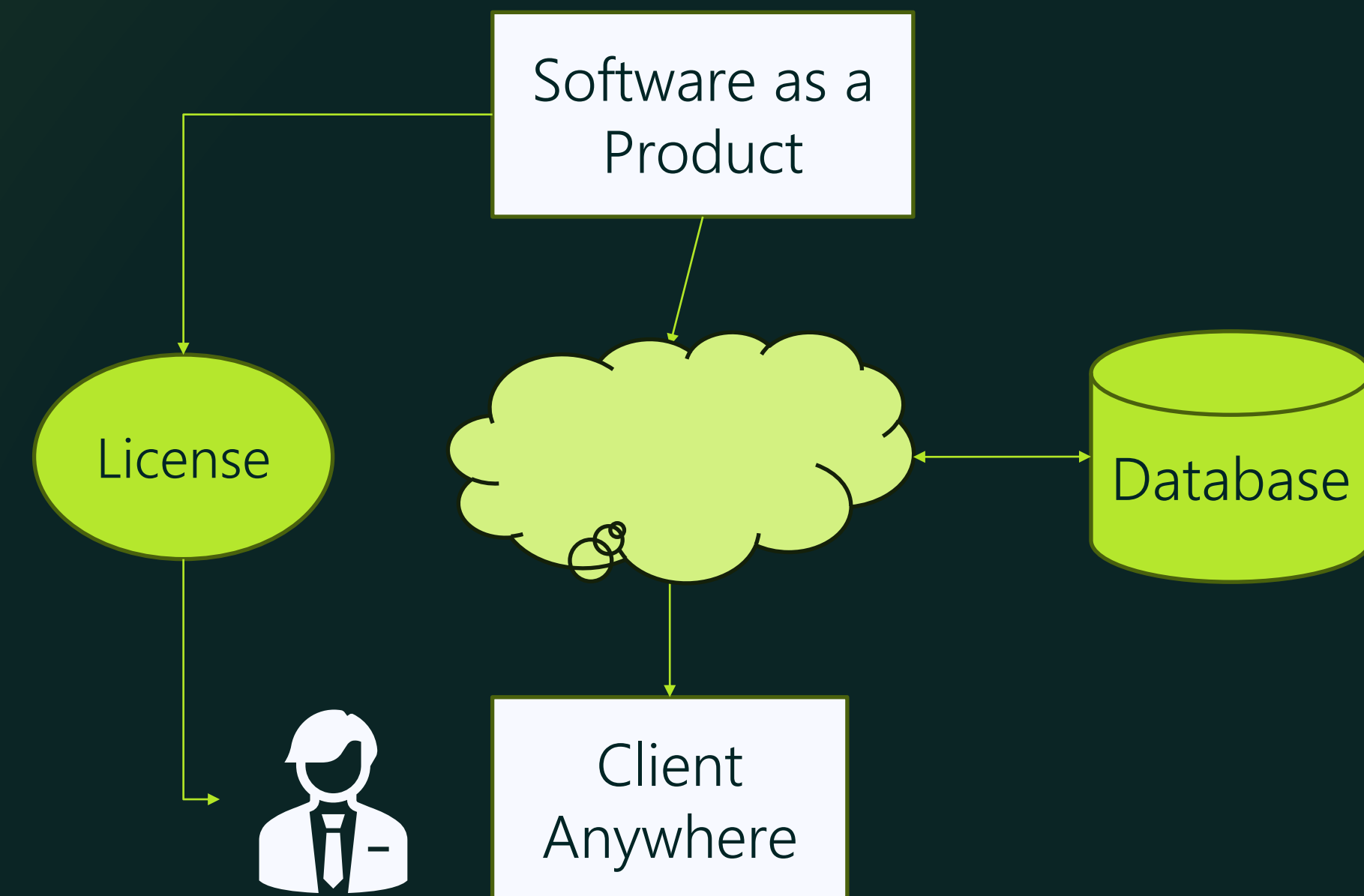
(11) Development of licensed or patented software that can be reproduced at a commercial scale and has the following features: (i) The user interacts with the software to carry out specific valuable tasks; (ii) the business models may include, (A) the distribution, whether physical, online or through the cloud or as part of a blockchain, and (B) the income earned from the licensing, program subscriptions, and/or services fees.

Intangible Property

(13) The licensing of Intangible Property developed or acquired by the Exempt Business holding a Decree granted under this Code.

Software as a Product Business Model

- Owns the IP
- Revenues are royalties
- Product provided to all users
- Requires development team
- Proprietary software coding
- User owns the data
- User managed the data
- Content publishing is not eligible
- R+D Tax Credits are allowed



License the software to the end-user.

General Tax Incentives



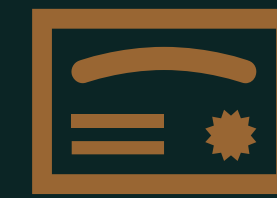
4%
Income Tax Rate



75%
Property Tax
Exemption



75%
Exemption over
Construction Taxes



50%
Municipal volume of
business exemption



50%
Tax Credit in R+D



Fuel



Water
Treatment



Raw
Materials

100%
Exemption on taxes



0% Taxes on
Personal tax returns
Stockholders and owners pay 0% taxes for
dividends distributed by the company.

General Cash Incentives

Job Creation: Based on number of employees and average salary.

Infrastructure: Based on need of the client and for eligible properties.

Machinery + Equipment: Based on need of the client up to 30%

Application/
Business Plan

Calculate
Cost-Benefit

Letter of
Intent

Client signs
LOI

Proposal to
Secretary of
DDEC

Approval of
Incentives

Incentives
Agreement

Reimbursed
Expenses

B/C = the taxes received from the company and its employees in relation to the investment made by the government.

The Term “Research + Development”

Any activity that is carried out with the objective of advancing:

- Knowledge or capability
- In a field of science or technology
- By solving scientific or technological uncertainty

The new knowledge that results from the research and development must be useful for creating:

- New products
- Improving existing products, or creating new services
- Commercial value processes

R+D Tax Credits

- Must request an accrediting certificate issued annually by the DDEC which will certify that the R+D activities carried out in Puerto Rico are eligible.
- Must reinvest equal amount of the tax credit in additional R+D.
- The credit can be claimed in two years or more.
- The capital assets base in subsequent years will be reduce by the amount of the tax credit claimed.

Note: Continuous improvements & contract research are not eligible for the credit.

Entrepreneurship

3

Entrepreneurship Programs

Innovative PYMES

- Emerging < \$3M in sales.
- To commercialize or export technological innovations.
- Prior formation in entrepreneurship or experience.
- Up to \$100k grant to initiate or expand operations.
- Innovative PYMES can request general tax and cash incentives after two years.