

(H.B. 2961)  
(Conference)

**(No. 287)**

(Approved December 26, 2006)

## **AN ACT**

To add a paragraph (R) to clause (4) of subsection (b) of Section 1022 of Act No. 120 of October 31, 1994, as amended, known as the “Puerto Rico Internal Revenue Code of 1994,” in order to exempt from the payment of taxes the interest proceeding from securities issued by corporations that avail themselves of the benefits granted under the “Tax Incentives Act of 1998,” or any other prior or subsequent analogous Act.

### **STATEMENT OF MOTIVES**

Act No. 135 of December 2, 1997, known as the “Tax Incentives Act of 1998,” (the “Act”) is one of the most important instruments the Government of the Commonwealth has to strengthen the industrial and economic base of our Island and to create employment for the Puerto Rican people. Its origins go back many years, although it has been improved throughout the years to adjust the same to the changing needs of the industry and maintain its competitiveness in view of the challenges brought about by the globalization of the economy and the markets.

The Tax Incentives Act has greatly contributed to the economic development of the Island, rewarding private enterprises for the creation and retention of jobs and for the development and transfer of technology to our economy. The preceding notwithstanding, the Act has failed to provide incentives for the local financing of the infrastructure and of the operations

of these enterprises. The absence of these incentives has often made it necessary to seek financing in foreign capital markets. To the degree that these enterprises obtain their financing from sources outside of Puerto Rico, the interest paid ends up in the hands of persons who are not subject to our tax laws. More importantly, the moneys collected from the issue of securities are not bound to be used on the Island.

In the past, the tax exemption on the interest generated by certain securities has proved to be a useful mechanism. Said exemptions allowed for the development of the agricultural industry and of the cooperative sector. At a time in which our economy is undergoing periods of uncertainty and a possible standstill, it becomes necessary to inject the former with new energy.

To exempt from the payment of taxes the interest on the securities issued by corporations that have availed themselves of the benefits granted under the Act or under any other prior or subsequent analogous Act will allow for an increase in the local financing of these enterprises. At the same time, to condition the exemption so that for a period of thirty-six (36) months as of the date of issue of said security, the enterprise uses not less than eighty (80) percent of the product of the securities solely and exclusively in the industry or business in Puerto Rico, shall make a positive impact on the economic activity of the Island. The funds collected from the issue shall be committed to the creation of jobs and to the development of the infrastructure and of the operations in Puerto Rico.

In view of this situation, this Legislature believes it urgent to exempt from the payment of taxes the interest proceeding from securities issued by corporations that have availed themselves of the benefits granted under the

“Tax Incentives Act of 1998,” or under any other prior or subsequent analogous Act.

***BE IT ENACTED BY THE LEGISLATURE OF PUERTO RICO:***

Section 1.- Paragraph (R) is hereby added to clause (4) of subsection (b) of Section 1022 of Act No. 120 of October 31, 1994, as amended, known as the “Puerto Rico Industrial Revenue Code of 1994,” to read as follows:

“Section 1022.-Gross Income.

(a) ...

(b) Exclusions from Gross Income

(1) ...

...

(4) Tax-free interest.—Interest on:

(A) ...

...

(R) securities issued by corporations that have availed themselves of the benefits granted under Act No. 135 of December 2, 1997, known as the “Tax Incentives Act of 1998,” as amended, or any other prior or subsequent analogous Act, when not less than eighty (80) percent of the product of the securities is solely and exclusively used in the industry or business in Puerto Rico of said corporation within a period of not more than thirty-six (36) months as of the date of issue of said security.”

Section 2.-This Act shall take effect immediately after its approval.

## CERTIFICATION

I hereby certify to the Secretary of State that the following Act No. 287 (H.B. 2961) (Conference) of the 4<sup>th</sup> Session of the 15<sup>th</sup> Legislature of Puerto Rico:

**AN ACT** to add a paragraph (R) to clause (4) of subsection (b) of Section 1022 of Act No. 120 of October 31, 1994, as amended, known as the “Puerto Rico Internal Revenue Code of 1994,” in order to exempt from the payment of taxes the interest proceeding from securities issued by corporations that avail themselves of the benefits granted under the “Tax Incentives Act of 1998,” or any other prior or subsequent analogous Act,

has been translated from Spanish to English and that the English version is correct.

In San Juan, Puerto Rico, today 28<sup>th</sup> of September of 2007.

Francisco J. Domenech  
Director