Bespoke Capital

Act 60 in Puerto Rico

A Targeted Tax-Planning Opportunity for Business Owners and Investors

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EXECUTIVE SUMMARY

Puerto Rico's Act 60 incentive program, formally known as the Puerto Rico Incentives Code, provides distinct tax incentives for qualifying businesses operating from Puerto Rico and for eligible individuals who establish bona fide residency on the island.

For the right privately held business owner—one who operates export-oriented services, seeks to optimize taxes on investment income, or is planning a business exit or succession—Act 60 can provide meaningful efficiencies on Puerto Rico-sourced income.

Key benefits include a 4% corporate income tax rate on qualifying export services and, for individuals meeting strict residency rules, exemptions or preferential rates on interest, dividends, and certain post-residency capital gains. These incentives are granted only through formal tax exemption decrees and require ongoing compliance with U.S. and Puerto Rico rules.

At Bespoke Capital, we work exclusively with successful business owners. We have seen how Act 60 can align with broader exit planning, wealth preservation, and family legacy goals—when approached correctly. I know this firsthand from spending part of my time in Puerto Rico and experiencing the lifestyle and opportunities the island provides.

What is ACT 60?

Act 60 consolidated and updated earlier incentives (formerly known as Acts 20 and 22) to promote economic growth in Puerto Rico. It creates two primary pathways relevant to business owners:

Chapter 3 – Export Services Incentive:

For businesses providing eligible services (such as consulting, management, financial services, or technology) from Puerto Rico to clients outside Puerto Rico.

Chapter 2 – Individual Resident Investor Incentive:

For high-net-worth individuals who become bona fide residents of Puerto Rico.

Benefits are available only through a formal decree issued through the Puerto Rico Department of Economic Development and Commerce's Office of Incentives for Businesses. Decrees are not automatic and carry ongoing reporting, residency, operational, contribution, and other compliance requirements.

Act 38-2026 extended the Individual Resident Investor program through December 31, 2055. The applicable treatment depends principally on when the application is filed. Applications filed on or before December 31, 2026 generally remain eligible for the prior rules, subject to decree approval and continued compliance. Applications filed on or after January 1, 2027 are generally subject to a 4% Puerto Rico rate on covered interest, dividends, and post-residency capital appreciation, subject to the decree, applicable law, and any more favorable treatment otherwise available.

Potential Tax Benefits of Act 60 for Business Owners

For the right client profile—typically an owner of a scalable service-based business with strong cash flow and investment holdings—Act 60 can support several strategic objectives:

Corporate-Level Savings

A qualifying export-services business may be subject to a 4% Puerto Rico income-tax rate on eligible export-services income. U.S. federal and other tax consequences depend on the entity structure, ownership, income sourcing, decree terms, and the taxpayer's specific facts.

Distributions of qualifying earnings and profits may also receive favorable Puerto Rico tax treatment in certain circumstances. Additional property-tax and municipal-license-tax benefits may be available, depending on the decree and applicable law.

Individual-Level Savings

Eligible individual resident investors may receive an exemption or preferential Puerto Rico rate on certain interest, dividend, and capital-gain income, depending on the application date, decree terms, acquisition date, and income source.

Federal income-source rules remain separate. Relocating to Puerto Rico does not automatically change the U.S. federal tax treatment of a mainland business sale, U.S. securities, or other U.S.-source income. These issues must be evaluated with qualified Puerto Rico and U.S. tax and legal professionals.

Alignment with Exit and Succession Planning

For the right owner, Act 60 may be one component of a broader business-transition, wealth-preservation, and family-planning strategy. Any potential benefits must be evaluated in the context of the owner's business structure, income sourcing, transaction timing, residency facts, family goals, and ongoing compliance obligations.

Lifestyle and Economic Contribution

Beyond taxes, Puerto Rico offers a U.S. territory environment with vibrant communities, modern infrastructure in areas like Dorado Beach, and a growing ecosystem of like-minded professionals.

These are not blanket benefits. Income must be properly sourced to Puerto Rico under strict rules, and federal tax treatment under IRC Section 933 depends on bona fide residency.

Act 60 Eligibility Requirements for Business Owners

Act 60 is selective by design. To qualify:

1. Bona Fide Residency Tests (IRS and Puerto Rico standards):

Satisfy the federal bona fide residency requirements, including the applicable presence test, having no tax home outside Puerto Rico, and having no closer connection to the United States or another country. Spending at least 183 days in Puerto Rico is one common way to satisfy the presence test, but the complete analysis depends on the individual's facts.

2. Pre-Move Residency Restriction:

Prior-residency restrictions also apply. For applications filed after December 31, 2026, the individual generally must demonstrate that he or she was not a Puerto Rico resident during at least the six years preceding the move.

3. Decree Application:

Comply with the annual $10,000 contribution requirement, which is allocated among qualifying Puerto Rico nonprofit organizations and the Special Fund for Social Equality, including at least $5,000 for qualifying organizations addressing child poverty.

4. Business-Specific Criteria:

For the export services decree, the company must perform qualifying activities from Puerto Rico and meet employment or investment thresholds.

> Compliance is rigorous. Puerto Rico now requires enhanced annual reporting, including CPA certifications. The IRS continues to scrutinize residency claims and income sourcing—particularly for capital gains, intangibles, and investment income.

A PERSONAL PERSPECTIVE

At Bespoke Capital, our entire practice is built around one client type: successful privately held business owners.

I founded the firm in 2012 with a clear mission—to help owners achieve financial independence through tailored strategies in exit planning, tax efficiency, asset protection, and wealth transfer.

I understand the planning and lifestyle considerations firsthand through my own relocation to Puerto Rico. Living and working on the island has given me a direct appreciation for its opportunities, quality of life, and business environment- while reinforcing the importance of approaching Act 60 with qualified tax and legal specialists.

Why Act 60 Requires Qualified Tax and Legal Specialists

If you are a business owner evaluating whether Act 60 could support your goals, we invite you to schedule a confidential conversation. Together, we can assess fit, review your unique situation, and determine if a deeper analysis with your specialists makes sense.

Contact us at cody@bespokecap.com to begin the discussion.

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