



TAX INSIGHTS

Tax Breaks and incentives for businesses adopting sustainable and eco-friendly practices.

Puerto Rico's Green Initiatives: Tax Breaks and incentives for businesses adopting sustainable and eco-friendly practices.

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Did you know that the government of Puerto Rico has implemented various tax breaks and incentives to encourage businesses to go green? These offer a series of financial benefits to businesses that incorporate sustainable and eco-friendly practices into their operations. This article will provide you with knowledge about the incentives and what benefits they offer to businesses

Before we begin discussing tax incentives, it is important to define the following terms:

- **Green Energy:** Includes both Alternative Renewable Energy and Sustainable Renewable Energy.
- **Alternative Renewable Energy:** Energy derived from landfill gas combustion, anaerobic digestion, fuel cells, and waste heat.
- **Sustainable Renewable Energy:** Energy derived from solar energy, wind energy, geothermal energy, renewable biomass combustion, renewable biomass gas combustion, combustion of biofuel derived from renewable biomass or from other sources such as microalgae, qualified hydropower, marine and hydrokinetic renewable energy, and ocean thermal energy.
- **High-Efficiency Energy:** Includes energy generation that complies with certain efficiency standards under the parameters of the Energy Bureau pursuant to Act 57-2014, as amended.

Now, with definitions out of the way, we will discuss an overview of the green energy incentives laid out in Chapter 7 of Subtitle B of Act 60 of 2019 “Infrastructure and Green Energy”. This

chapter incorporates into Act 60 the incentives provided by Act 83 of 2010, known as the “Green Energy Incentives Act of Puerto Rico” and incentives for eligible infrastructure activities. Act 83 was created to promote renewable energy generation in accordance with short, medium, and long-term mandatory goals, and continues to be effective for businesses that were awarded tax grants under its provisions. From 2020 onwards, businesses seeking Green Energy incentives must apply under the provisions of Act 60.

Under this Chapter, the government offers the following benefits for the Green Energy and Highly Efficient Energy businesses for a period of **fifteen (15) years, with an extension of fifteen (15) additional years**:

- A **fixed tax rate of four percent (4%)** on green energy income (GEI) or high-efficiency energy income (HEI).
- Gains from the sale or exchange of ownership interest in the exempt business or substantially all business assets during the grant period are subject to a four percent (4%) tax.
- The business has the option to choose the specific taxable years to be covered by the decree regarding GEI. If the business opts for this benefit, the exemption period shall be extended for the number of taxable years it did not claim the tax exemption (“Flexible Exemption”).
- A **twelve percent (12%)** withholding tax rate on royalty payments to nonresidents, creditable against the four percent (4%).
- Special deduction for investments in building, structures, machinery and equipment the year in which they were incurred in lieu of any capitalization (“Special Deduction”).
- A **seventy-five percent (75%) exemption** on municipal and state real and personal property taxes.
- A **fifty percent (50%) exemption** on municipal licenses, excises and other municipal taxes.
- Fully exempt from Sales and Use tax and excise tax on the following items acquired directly or indirectly by the entity:
 - Any raw material to be used in Puerto Rico in the production of green energy or highly efficient energy.
 - Any machinery, equipment and accessories used exclusively and permanently in transporting raw materials used to produce green energy or highly efficient energy or required by federal or state law or regulation.
 - Any machinery and equipment that must be used to comply with the environmental safety and health requirements.
 - Chemical materials that are used for wastewater treatment.
 - Certified energy efficient equipment
 - Electric power substations

Another chapter that encourages businesses to adopt eco-friendly activities is **Chapter 6 – Manufacture of Subtitle B of Act 60** through the following eligible activities:

- Recycling activities
 - Partial Recycling Activities: Activities that carry out two or more of the following: collection, distribution, reconditioning, compaction, shredding, or other process that transform recyclable materials recovered in Puerto Rico into raw materials, aggregates for the manufacture of a product, that prepare the material or product for its local sale, use or export and that locally sell, use or export the processed material or product for its future use or recycling.
 - Total Recycling Activities: Recycling materials that have been recovered mainly in Puerto Rico and transforming them into commercial items.

These businesses can enjoy the following benefits provided by the government under this Chapter for a period of **fifteen (15) years, with an extension of fifteen (15) additional years:**

- A **fixed tax rate of four percent (4%)** on their net industrial development income.
- Gains from the sale or exchange of ownership interest in the exempt business or substantially all business assets during the grant period are subject to a four percent (4%) tax.
- A **twelve percent (12%)** withholding tax rate on royalty payments to nonresidents, creditable against the four percent (4%).
- Special Deduction and Flexible Exemption are available.
- A **seventy-five percent (75%) exemption** on municipal and state taxes on real and personal property.
- A **fifty percent (50%) exemption** on municipal licenses, municipal excises and other municipal taxes.
- Fully exempt from Sales and Use tax and excise tax on the following items acquired directly or indirectly by the entity:
 - Any raw material to be used in Puerto Rico to produce finished goods, with certain exceptions.
 - Any machinery and equipment exclusively used in the manufacturing process or required to comply with the environmental safety and health requirements
 - Machinery, materials, equipment or accessories used in laboratories for experimental purposes and in renewable energy research within the Puerto Rico Science, Technology, and Research District and certain preliminary regional exploration.
 - Fuel used to generate electric power or thermal energy for its own or affiliates' use.
 - Chemical materials that are used for the treatment of wastewater.

Other benefits that are provided by Act 60 under **Subtitle C** are the following credits that can be used against eligible activities:

- **Credit for the Purchase of Products Manufactured in Puerto Rico:** Up to twenty-five percent (25%) [thirty percent (30%) if the business is in Vieques or Culebra] of the purchases of Puerto Rico manufactured products during the taxable year. The amount of credit not used in the taxable year that is created may be carried over to subsequent taxable years until it is exhausted. This credit shall not generate a refund, and it is not transferable.
- **Investment in Research and Development (R&D) Investment Credit:** The business may claim a credit of up to fifty percent (50%) of the special investment in R&D made in Puerto Rico. This tax credit may be used in two (2) or more installments:
 - Up to fifty percent (50%) may be used in the year in which the eligible investment is made.
 - The credit balance after the use of fifty percent (50%) may be used in subsequent years until it is exhausted. This credit is transferable and shall not generate a refund.

For an expanded discussion of available tax credits, click on the following link [The Ins and Outs of Puerto Rico Tax Credits as a Tax Savings Tool | Grant Thornton](#)

Offering tax breaks and incentives for green energy, recycling activities, green buildings, and other eco-friendly practices can significantly reduce implementation costs and provide tax savings, while contributing to environmental conservation. Puerto Rico is positioning itself as an attractive destination for businesses seeking to transition to eco-friendly and sustainable operations.

We are committed to keeping you up to date with all tax-related developments. Please contact our Tax Department, should additional information be required regarding this or any other tax issue. We will gladly assist you!



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