



## TAX INSIGHTS

### Tax Incentives for the Film and Creative Industries in Puerto Rico

**Tax incentives for the film and creative industries in Puerto Rico: exploring the benefits for businesses in the creative sectors.**

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Puerto Rico has been a favorite destination for filmmakers, artists, and creative entrepreneurs, because of its dynamic culture, beautiful scenery and advantageous position. The creative industries serve as an economic embodiment of culture, highlighting Puerto Rico's exceptional quality of life both locally and internationally. The enactment of Act 60-2019, known as the Puerto Rico Incentives Code, has firmly established the island as a global hub for film production, digital media, and other creative industries. This comprehensive tax incentive law is a game-changer, offering producers, filmmakers, and other creatives significant economic advantages to bring their projects to life.

#### What is Act 60-2019, Chapter 9? (formerly Act 27-2011)

On March 4, 2011, Puerto Rico enacted Act 27 of 2011, known as the Puerto Rico Film Industry Economic Incentives Act, to provide tax exemptions and tax credits for production companies of film, television, and other media projects. On July 1, 2019, the government of Puerto Rico consolidated all existing and outstanding tax incentives laws into a single code, enacting Act 60-2019, the Puerto Rico Incentives Code ("Incentives Code"). Film Industry incentives promote the growth of creative sectors such as television, cinema, music, video games, and national and international commercials by offering a wide

range of tax benefits. At the same time, these incentives aim to promote economic expansion, generate employment, and solidify Puerto Rico's position as a leading creative economy in the Caribbean and Latin America by attracting local and international investment.

### Who can qualify for the benefits of film and creative industries?

Any person or any new or existing business engaged in one or more of the following eligible activities may apply for the grant under the Incentives Code:

- Film Projects
  - Having production or post-production carried out in Puerto Rico
  - Intended for airing, commercial distribution or exhibition to the general public outside of Puerto Rico by any means and media (feature films, short films, and documentaries can be directed for the Puerto Rico audience and still qualify)
  - Minimum production expenditures are at least \$50,000 or \$25,000 if the production costs relate to documentaries and short films.
- Film festivals, music videos, video games
- Television series, miniseries and television programs
- Commercial broadcast outside of Puerto Rico with an aggregated cost of Puerto Rico production expenditure of at least \$100,000.
- Studio operators or post-production studios
- Eligible infrastructure projects that involve developing or expanding film-related facilities in Puerto Rico, such as studios, laboratories, or broadcast centers, whose direct budget costs certified the auditor exceed \$500,000.
- Strategic suppliers or Grantees authorized by the Secretary of the Department of Economic Development and Commerce of Puerto Rico (DEDC) that meet all established requirements.
- To qualify for the incentives, the Film Project content should not primarily consist of religious or political advertising; should not include pornographic material, should not be a radio program; primary purpose should not be for raising funds; should not be intended primarily for employee training or corporate in-house advertising.

The Incentives Code offers creative industry incentives under two chapters, Chapter 3 and Chapter 9. The tax benefits under Chapter 9 are focused on film projects produced in Puerto Rico and related tax credits. Notwithstanding, tax benefits under Chapter 3 are focused on the export of what has been produced in Puerto Rico. Creative industries that intend to apply for tax benefits under Chapter 3 of the Incentives Code, should be registered in the Creative Industries Register, and have the potential to create jobs and economic development through the export of creative goods and services in the following sectors: Design (graphic, industrial, fashion, and interior design); Arts (music, visual arts, performing arts, and publishing); Media (application, videogames, online media, digital, and

multimedia content development); and Creative Services (architecture and creative education). As the tax benefits under Chapter 3 and Chapter 9 differ, it is crucial to explore these options based on the applicant's business operations before applying.

### Tax Benefits for the Film and Creative Industries under Chapter 9 of Act 60-2019

One of the most significant aspects of Chapter 9 is the tax benefits it provides for film and television productions. These benefits are available to both foreign and local projects that meet the program's eligibility requirements and the tax exemption periods can be granted throughout the life of the project or 15 years for the Studio Operators.

The following are various tax benefits of Film and Creative Industries under Chapter 9:

- 4% fixed income tax rate on eligible income
- 100% income tax exemption on distributions from earnings and profits to its Shareholders or Members from eligible activities and on liquidating distributions attributed to eligible income.
- 75% exemption on real and property tax
- 100% exemption on municipal license taxes.
- 75% exemption on other municipal taxes, liens, license, construction excise tax
- 100% exemption on Excise Tax and Sales and Use Tax (In exclusive use in activities within the film industry which are in Puerto Rico temporarily).
- 100% exemption from income tax and sales and use tax to non-Puerto Rico residents on their rental income from personal property located in Puerto Rico to be used for eligible activities (provided that a certification is issued to the PR Treasury and Secretary of DEDC that the personal property was not available in PR)

### Tax Credits for Film and Creative Industries under Chapter 9 Act 60-2019

In addition to the tax benefits mentioned before, Grantees engaged in Film Projects may apply for a Tax Credit with respect to Puerto Rico production expenditures. The following credits may be available to filmmakers:

1. **Up to 40% in tax credits** on eligible production expenses incurred in Puerto Rico, excluding payments to Non-Puerto Rico Residents. These expenses should be duly certified by a Certified Public Accountant with authorized license in Puerto Rico (CPA) following Act 60-2019 Regulation 9248, as amended.
2. **Up to 20% tax credit** for payments to non-Puerto Rico residents, (including stunt doubles) as part of the production expenditure. These payments made to non-Puerto Rico resident talent should have been subject to the Special Tax of 20% withholding tax and subject to the certified report issued by a CPA.

- Up to 15% of the amounts certified by a CPA as disbursed for Puerto Rico Production Expenditures, excluding payments to non-Puerto Rico residents, may qualify for a tax credit. This applies to feature films, television series, or documentaries where a domestic producer leads the project and at least one of the following key roles is held by a domestic person: director, cinematographer, editor, production designer, postproduction supervisor, or line producer. The maximum tax credit per film project under this provision is \$4 million.

Tax credits are subject to an annual limit of one hundred million dollars (\$100,000,000) per fiscal year for all Film Projects. In the case of film projects, the credit approved may be used in two or more installments. Fifty percent (50%) may be used in the taxable year during which the activities covered by the decree begin, and the credit balance in subsequent years.

### How to apply for the incentives?

To access these benefits, companies and individuals must e-file an application through the Incentives Portal of the DEDC. The application process requires submitting detailed project plans and budgets to ensure eligibility and compliance with the program requirements.

The Incentives Code is a vital driver in developing the island's film and creative industries. Tax incentives offer significant financial benefits for local talent and international businesses, while fostering investment in local talent and infrastructure. By creating an environment of innovation and collaboration, Puerto Rico is positioning itself as a global leader in the creative economy, providing unique opportunities for filmmakers, artists, and entrepreneurs to thrive in a culturally rich and business-friendly setting.

As always, we are committed to keeping you up to date with all tax-related developments. Please contact our Tax Department for additional information regarding this or any other tax issue. We will be glad to assist you.



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