



New Framework for International Banking and Financial Entities

Act No. 273 of 2012 to promote the International Financial Entities (“IFE”)

Act 273
of 2012

- **Objective:** To make Puerto Rico an international banking and financial center by providing tax incentives for new banking and financial activity in Puerto Rico that is done for clients outside of Puerto Rico.
- **What is an IFE?** An IFE is a Puerto Rico entity engaged in traditional banking or financial services for non-Puerto Rican clients. IFEs are under the supervision of the Office of the Commissioner of Financial Institutions.



Incentives under Act 273

Compelling value proposition for banking and financial service providers

4% Corporate Tax Rate

- IFEs will enjoy a 4% flat income tax rate on its income.

0% - 6% Dividend Tax Rate

- Puerto Rico Shareholders: Distributions from earnings and profits derived from IFEs will be taxed at 6% for shareholders that are Puerto Rico residents.
- Non-Puerto Rico Shareholders: Non-residents will enjoy 100% exemption from Puerto Rico taxes on such dividends.

100% Exemption on Municipal Taxes

- Municipalities in Puerto Rico may levy a gross receipts tax of up to 1.5% for financial services.
- IFEs will enjoy a 100% exemption on such municipal taxes

100% Exemption on Property Taxes

- IFEs will be 100% exempt from all property taxes.



Requirements under Act 273

Simple and easy to meet

License from Regulator

- IFEs are subject to the oversight of the Office of the Commissioner of Financial Institutions (OCIF, by its Spanish acronym).
- OCIF will issue a license after reviewing application and performing due-diligence on the proposed IFE and its principals.

Capitalization

- IFEs must have at least \$5 million in capital, of which at least \$250,000 must be completely paid-in.
- OCIF may lower the capital requirements to as low as \$500,000 for IFEs performing limited activities.

Free and Clear Assets

- IFEs must also maintain at least \$300,000 in assets that are free and clear from any liens, or it must provide a financial guaranty in the same amount.
- OFIC may lower such requirement for certain IFEs .

Employees

- IFEs must maintain at least 4 full-time employees working at its offices located in Puerto Rico.



IFE Transactions

IFEs are authorized to do certain types of transactions

PERMITTED TRANSACTIONS: IFEs are authorized to engage in traditional banking and financial transactions with clients outside of Puerto Rico, including transactions related to:

- Accepting deposits
- Borrowing money
- Lending
- Letters of credit
- Refinancings
- Foreign currency exchange
- Underwriting
- Trade financing
- Trust services
- Securities brokerage
- Clearinghouse services
- Asset management
- Other financial services

LOCAL TRANSACTIONS: IFEs are generally not permitted to do transactions with local Puerto Rico counterparties, except in certain cases such as these:

- Certain transactions involving the Government Development Bank and the Economic Development Bank of Puerto Rico
- Certain transactions and activities involving securities issued by the Government of Puerto Rico
- Participation in local loan syndications originated by a local bank
- Purchasing of substandard or non-performing loans from Puerto Rico entities



Applicability of U.S. Banking Laws

IFEs are exempt from certain U.S. banking laws, but not from others

Exempted

- **US International Banking Act:** Puerto Rico is considered a foreign jurisdiction under the US International Banking Act of 1978 (IBA), therefore all IFEs in Puerto Rico are exempt from the IBA's requirements for domestic financial institutions.
- **U.S. Bank Holding Company Act:** Puerto Rico IFEs are also generally exempt from the U.S. Bank Holding Company Act (BHCA) and thus may be affiliated with commercial institutions. However, if the IFE accepts demand deposits and issues commercial loans, it will be considered a Bank under the BHCA.

Applicable

- All IFEs must ensure that they comply with any applicable U.S. federal laws and regulations, such as:
 - **Bank Secrecy Act**
 - **US Patriot Act**
 - **Office of Foreign Asset Control (OFAC)** of the United States Department of the Treasury



Process for setting up an IFE

A predictable process and tax certainty for 45 years

- **Permit to Organize:** Any entity may apply for a permit with the Office of the Commissioner of Financial Institutions (OFIC) to organize an IFE. The application can be obtained from OCIF. OFIC will review the application to determine the suitability of the proposed IFE, focusing on the financial solvency, the credit and commercial banking experience and the integrity of the applicants and their directors and officers.
- **Organization:** Applicants with a permit to organize an IFE must file such permit, along with the organizational documents, with the Department of State to register and officially organize the IFE.
- **License to Operate:** OCIF will issue a license to operate to the newly organized IFEs that meet the requirements under the Act, including the minimum capital requirements.
- **Decrees:** To enjoy the tax benefits under the Act, IFEs must request and obtain a tax exemption decree by submitting a copy of its IFE license to the Secretary of the Department of Economic Development and Commerce of Puerto Rico. Within 15 days, the Secretary will sign the decree.
 - 45 Years: Such decree will have term of 15 years, renewable for two additional 15 year periods, subject to certain conditions.
 - Certainty: The Tax Exemption Decree will constitute a contract with the Puerto Rico Government not subject to subsequent legislative changes.