

Puerto Rico Tax Alert

Act 14-2017- New Tax Incentives for Qualified Physicians

March 1, 2017

As a public policy matter, on February 21, 2017, the Government of Puerto Rico enacted Act 14-2017 to incentivize medical professionals to stay in Puerto Rico or move to Puerto Rico and practice medicine locally. This incentive is granted by means of a tax exemption decree (the "Decree") to be issued by the Secretary of Economic Development and Commerce providing a reduced income tax rate of 4% on Eligible Income, in lieu of any other income tax; and full income tax (including the alternate basic tax) and withholding exemption on Eligible Dividends up to \$250,000 per year.

Detail

Incentive

Beginning on the 2017 tax year, Qualified Physicians may be granted a Decree providing for a 4%¹ income tax rate, in lieu of any other income tax, on Eligible Income generated from medical services rendered within Puerto Rico. In addition to the reduced income tax rate, the Qualified Physician will also be entitled to a full income tax (including the alternate basic tax) and withholding at source exemption on Eligible Dividends up to \$250,000 per year.

Qualified Physicians will have a 2 year period beginning on April 22, 2017 (Act 14-2017's effective date) to file for a Decree application. No applications for decrees will be accepted after the expiration of the 2 year period. Each Decree will cover a 15 year period, which can be extended for another 15 years. During the effectiveness of the Decree, the Qualified Physician must comply with the following requirements:

- maintain the Qualified Physician status;
- practice medicine, podiatry, be a dental surgeon or practice a full-time odontology specialty;
- being a Puerto Rico resident;
- comply with the tax responsibilities mandated by Act 14-2017;
- comply with the community services hours provided by Act 14-2017; and
- any other requirement provided in the Decree.

The Qualified Physician must provide 180 community service hours without compensation each year. In the alternative, the Qualified Physician may comply with the 180 hours of community service by rendering services as a service provider or employee to the central government's healthcare plan, with compensation.

In evaluating whether the granting of a Decree to a particular medical professional is in the best social and economic interests of Puerto Rico, the following criteria will be taken into account:

- Economic impact of granting the Decree;

¹ The 4% tax rate is similar to the tax rate granted under other tax incentives laws, such as Act 20-2012, known as the Puerto Rico Export Services Act.

- The specialties or subspecialties that the applicant doctor has or is in the process of obtaining as part of a duly accredited residency program;
- If there is a shortage of specialized physicians of this type in Puerto Rico and the number of doctors of that specialty and/or subspecialty who are offering services in Puerto Rico; and
- The geographical areas to which the physician provides or will provide services.
- Fails to move his or her medical office to Puerto Rico and become a PR resident within the 120 day period granted under the Decree;
- Ceases to be a Puerto Rico resident;
- Ceases to be a Qualified Physician;
- Ceases to practice medicine on a full time basis in Puerto Rico;
- Fails to provide the annual community service hours required under Act 14-2017; or
- Fails to comply with any other provision of Act 14-2017, its Regulations or any related circular letter or administrative determination.

Revocation and Clarification

The Decree is a contract between the Qualified Physician and the Government of Puerto Rico. Thus, it must be carefully reviewed to identify the obligations imposed upon the qualified physician to ensure such obligations are met and avoid the revocation of the decree.

The Decree may be revoked when the Qualified Physician:

The revocation of the decree, except in certain circumstances, would result in the recapture of the unpaid income taxes during the three years preceding the revocation, or during the term of the decree, if shorter.

Effectiveness

Act 14-2017 will become effective on April 22, 2017 (i.e. 60 days after its approval).

Contact us

If you would like to discuss this alert in more detail, please contact any of the attorneys below:

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