



Economic Assessment Act 20/22

Summary of Results



Background

Puerto Rico's economy has experienced a transition from manufacturing to a service economy

The economy's state calls for a wide ranging set of actions that will generate investment, stimulate the construction sector and provide the basis for development of an advanced services sector with export potential beyond domestic demand

The newness of Act 20/22 means that any analysis of their impacts may well be premature, yet several direct effects are already observed and are expected to continue increasing during the next few years

The Economy & Act 20/22 Incentives Programs



Diverse profiles

- Net worth
- Company size
- Cultural backgrounds
- Export market
- Services
- Occupations



20/22

Synergy
Effect

Act 22

- incentive for Act 20 businesses who wish to establish their residence in the Island.

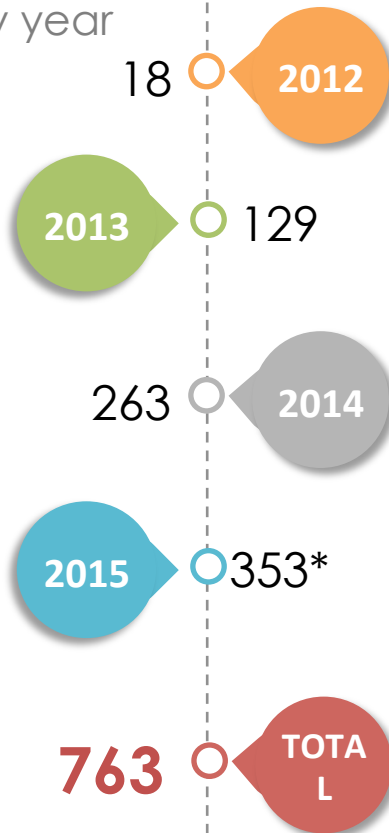
Act 20

- provides an incentive for Act 22 participants to relocate their business to Puerto Rico.

Growing Trend of Program Participants

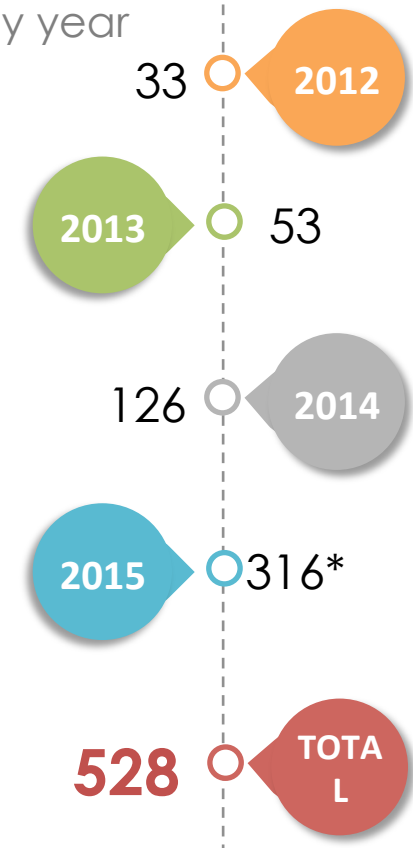
Act 22 Decrees

approved by year



Act 20 Decrees

approved by year



*Includes signed and pending cases

Methodology

ETI developed a hybrid approach which combined data from annual reports (being the most accurate source of information) and complemented that data with information from applications

Employment, fiscal revenues, investment and consumer spending were particularly analyzed

Several econometric tools employed in the 10-year forecast:

- Potential pool of decrees , estimated 10 years
- Trimmed averages from actual data (5%)

Growth rates were estimated for each forecasted variable

- Employment- avg. growth rate from actual data
- Wages- Forecasted based on PR's salary data
- Gross income- Forecasted based on US GDP growth
- Money spent per decree

Act 22

Overview Act 22

Tax incentive program \neq 0 tax

(only capital gains, interests and dividends from PR)

- Full taxation on salaries, property, consumption (goods and services)

Incremental effect in the economy

- Capitalize on providing services to newcomers and synergies with Act 20

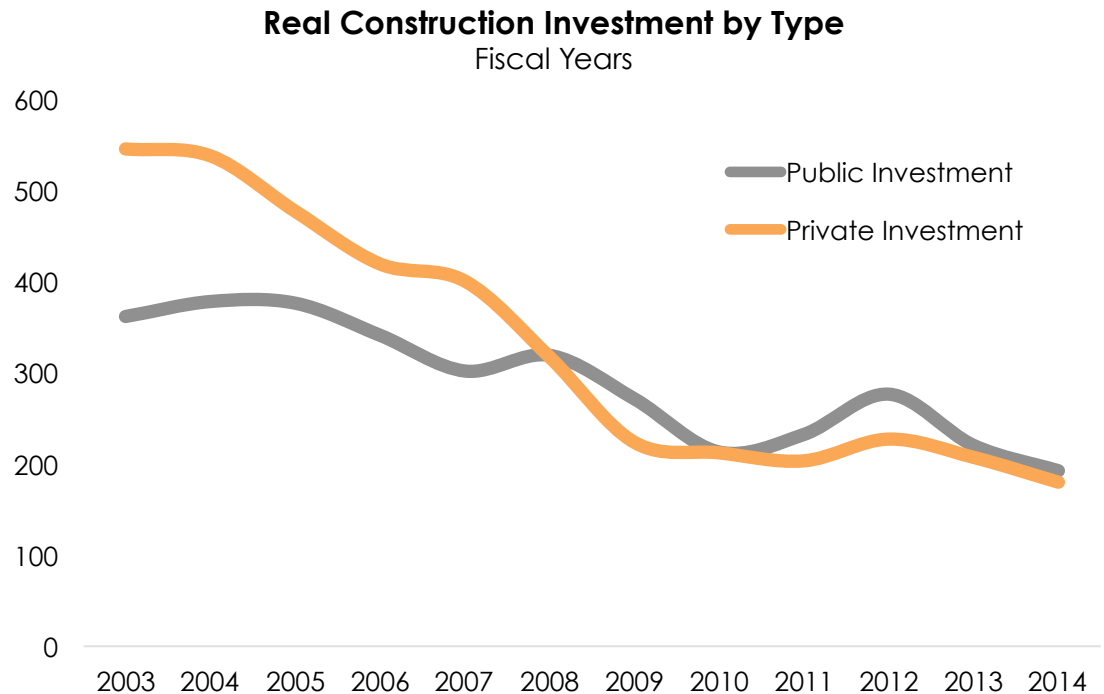
Generate employment from newly established residents which demand jobs for their businesses

- This excludes Act 20 jobs and household domestic work

Investment Gap

Act 20 and Act 22
provide the enabling factors for creating new capital investments in the economy.

By importing new capital, the economy has captured capital inflows which **will add to the total investment figures** in the following years



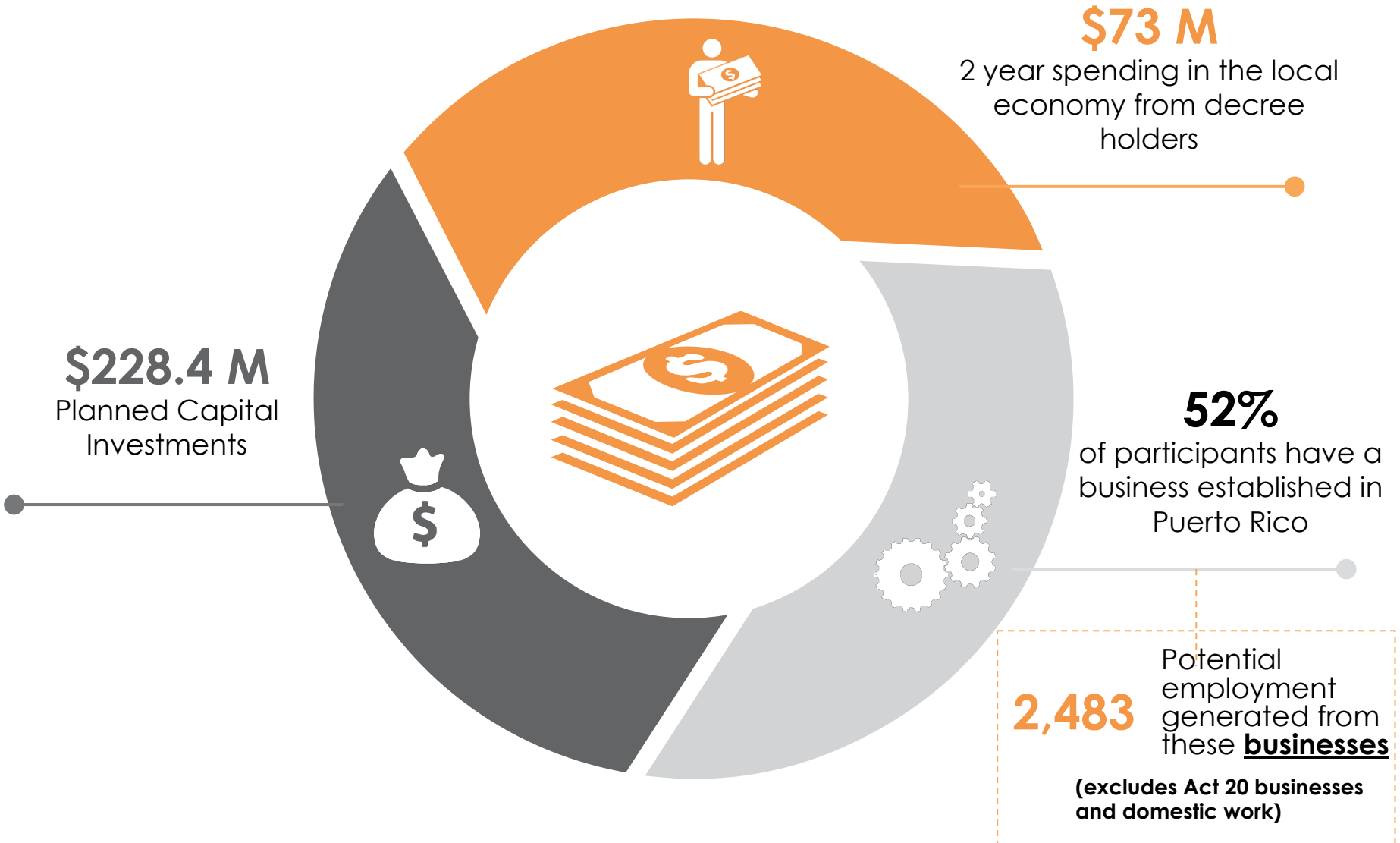
A Change in Direction Through Act 22



* The above figures do not include other real estate investments from non-decree holders which totals over **\$1 Billion**

By 2020 Act 22 grantees will have demanded close to \$1,000 million in real estate investments (primarily housing), which will provide an injection of capital to the construction industry

Act 22 Spending (2014-2015)



Continuing Trend...



By 2024
one should
expect
close to

4,000

Act 22
grantees



Total
investment
in real
estate by
2024 will
add up to

**\$1.7
Billion**

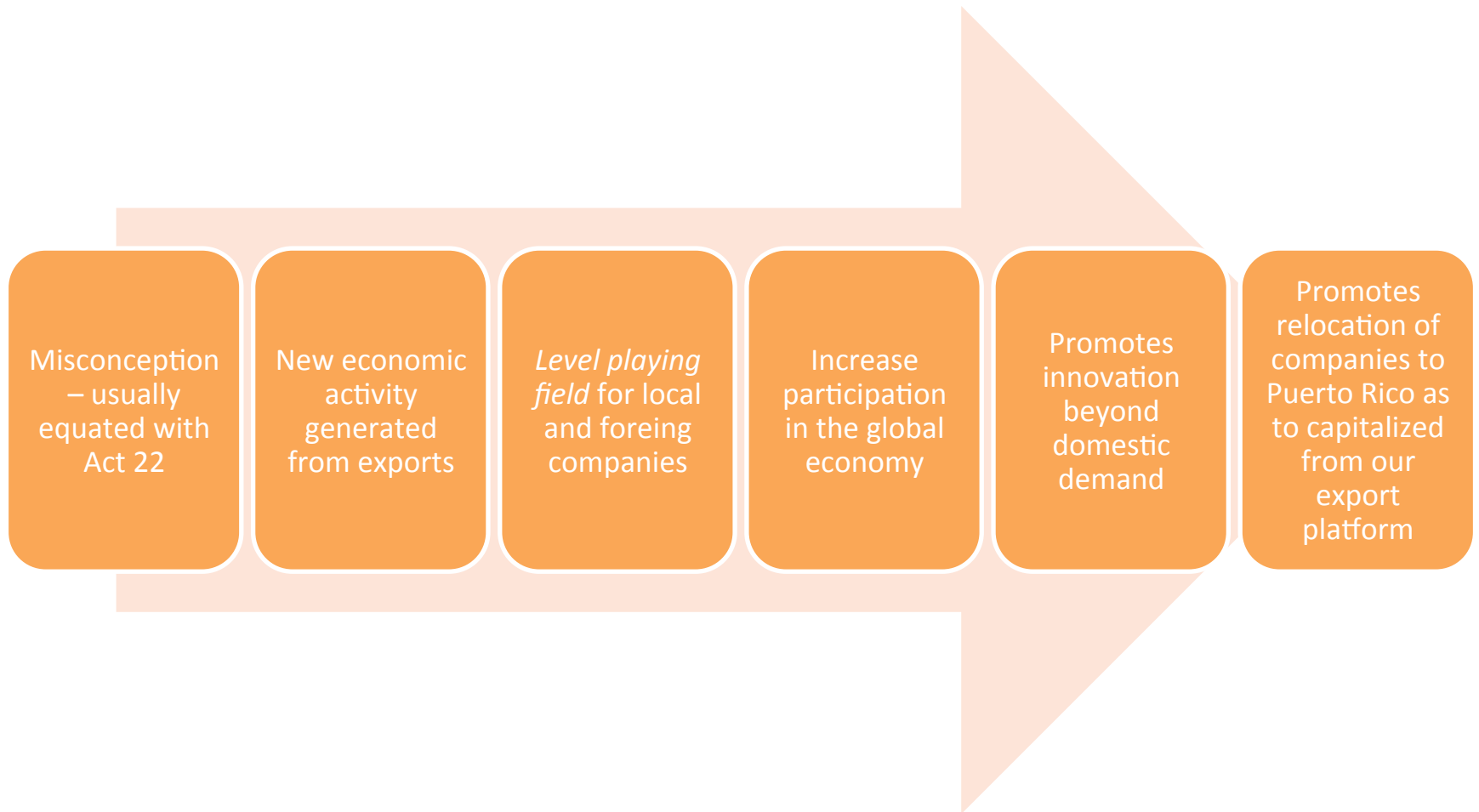


Total
individual
expenditures
within the
Island will
reach over

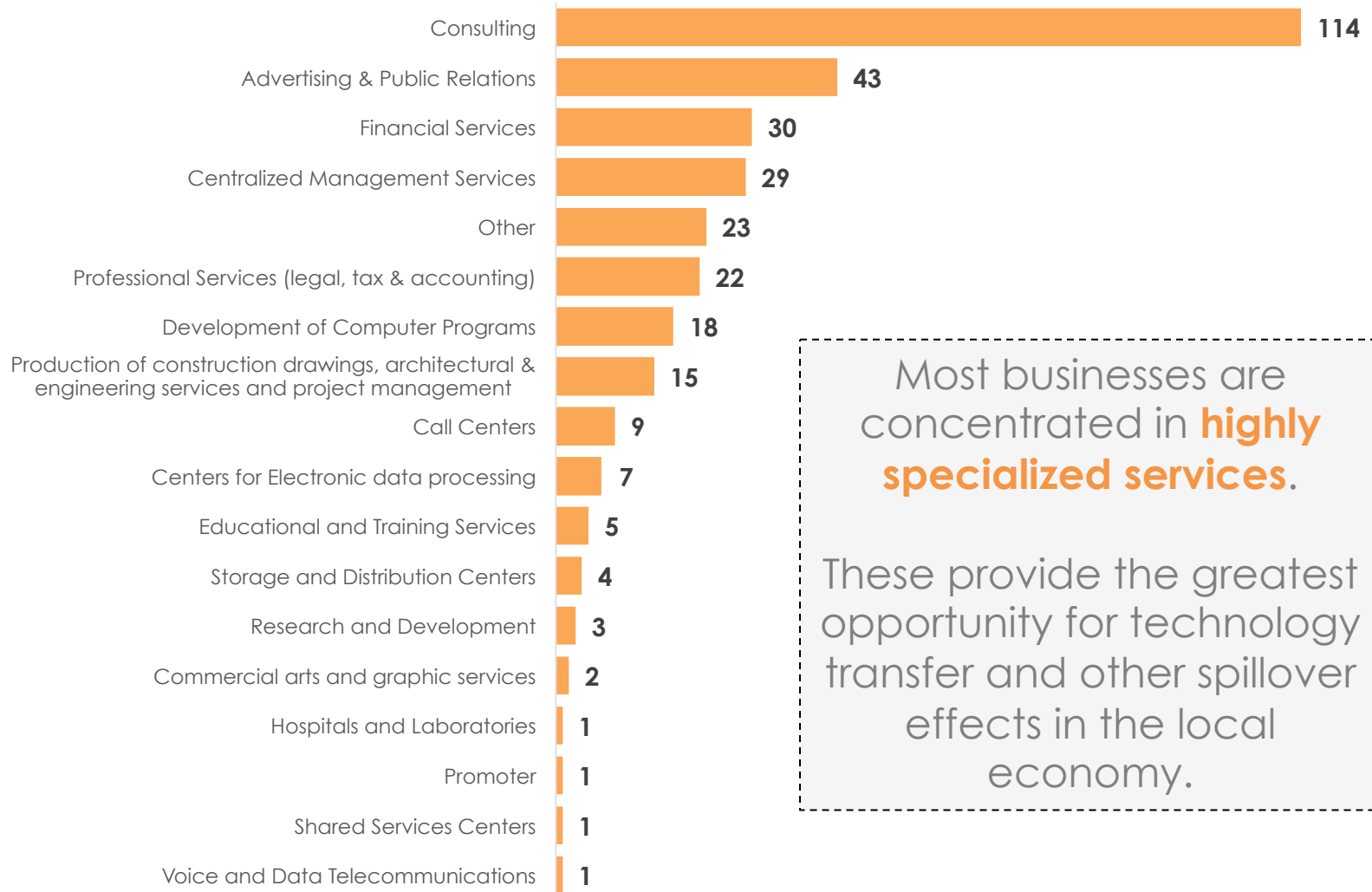
**\$830
million**

Act 20

Act 20 Overview



Profile of Act 20 Companies by Service Type



Creating International Linkages

20%

Percent of Local companies

Service Export Destinations

66% of Act 20 corporations export services to the **U.S.**, other top export destinations are:



Act 20 Performance (2014 -2015)

1% of GNP

7,033

Total employment
from direct, indirect
and induced jobs



3,349

Total direct
employment

\$42,496

Average
salary



"The performance of Act 20/22 incentives cannot be measured only via employment creation, but rather on the long-term effect of technical knowhow - which spurs innovation - and the internationalization of the local service sector."



\$1.2B

Act 20
Companies total
revenues

\$34.3M

Corporate
income taxes



\$137.1M

Total payroll

Continuing Trend... 2024



By 2024 one should expect close to **3,500** program participants



Act 20 companies would have generated close to **50,000** new employment opportunities



By 2024 export service companies under Act 20 would generate **\$38.5** billion in gross income

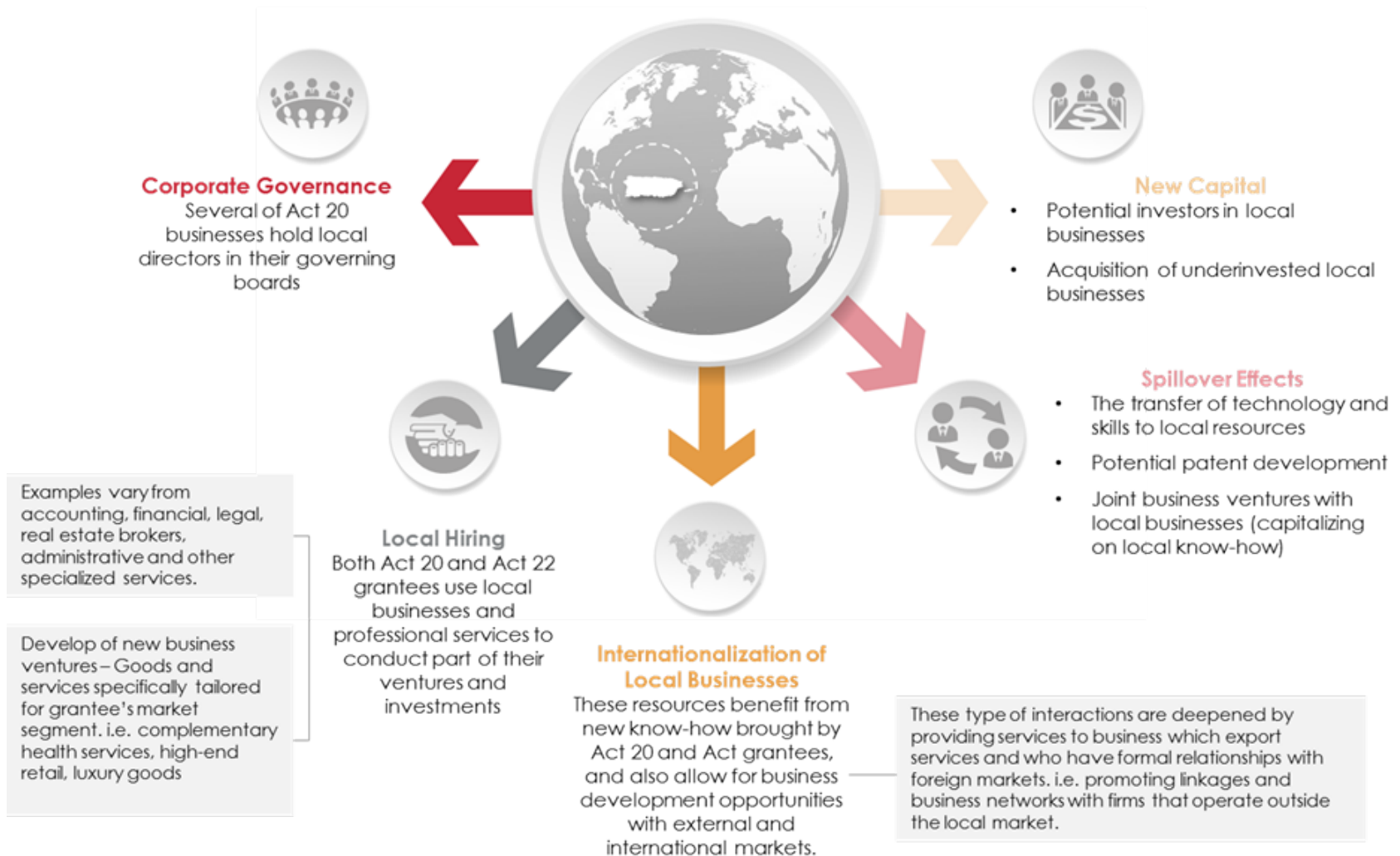


Over **\$800 million** in corporate tax in a 10 year period



Total payroll paid by 2024 adds to over **\$3.1 billion**

Internal Linkages of Act 20 and Act 22



Conclusions

Contrary to manufacturing incentives, the performance of Act 20/22 incentives cannot be measured only via employment creation, but rather on the long-term effect of technical knowhow - which spurs innovation - and the internationalization of the local service sector

Foregone income - the activity that would be subject to the tax would not have been carried out had it not been for Act 22

- Any fiscal income derived from these activities (income taxes, sales taxes and others) is new net income to the government that otherwise would not have been generated

Act 20 companies are concentrated in high-value added services, with highly specialized skill sets, thus, the local economy can participate in a more competitive market with potential technology transfers.

Laws 20/22 play an important role in marketing the island as an important investment location

Both pieces of legislation will continue to foster the development of Puerto Rico's service economy, increase the share of service export as a share of total exports, and ultimately run a service trade surplus of high-skill and high-paying services

Recommendations

Develop thresholds related to employment and investment requirements

Promotional efforts should also focus on incentivizing local firms to obtain these types of decrees.

- The low entry requirement should be maintained for local firms, in order to increase the incentives effectiveness

Maximizing synergies

Develop adequate policy interventions that guarantee higher spillover effects (internal linkages)

For Act 22 decree holders, an investment requirement in conformity with the development of Act 20 firms or other types of enterprises could be developed

Act 22 should be to incentivize the arrival of foreign entrepreneurs towards Act 20 eligible activities

- Both laws must operate together. Act 22 as an incentive to import new capital and knowhow into the economy, and Act 20 as an export vehicle for both local and newly formed enterprises in the Island