



Pick Out a Home, Not a Holiday House

Tax Perks and Pitfalls of Moving to Puerto Rico

Puerto Rico has become a popular destination for entrepreneurs, investment advisors, and individual investors in the United States, thanks to Puerto Rico Incentives Code, or Act 60 of July 1, 2019, as amended (Act 60). The legislation spotlights Puerto Rico as an attractive locale for US investors to gain certain tax benefits while still enjoying the benefits of US citizenship. Yet before diving in, it's essential to understand the ins and outs of these tax benefits and the requirements that come with them.

Income Tax Advantages

Act 60 aims to “promote Puerto Rico’s sustainable economic development” by attracting high-net-worth individuals and service businesses to the island.¹ The main draw? The chance to cut the effective tax rate on key income streams by 90% or more by taking advantage of the unique interplay between the Internal Revenue Code (IRC) and Puerto Rico’s tax regime. But these benefits don’t accrue automatically. Instead, they require careful planning, strict adherence to residency and sourcing rules, and ongoing compliance with both Puerto Rico and US tax authorities.

Generally, the United States taxes its residents—including citizens and permanent residents—on their worldwide income. However, bona fide Puerto Rico residents avoid federal income tax on their Puerto Rico-sourced income, even if they are US residents.² Under the recently amended Act 60, taxpayers relocating to the island may reduce taxes on their Puerto Rico sourced capital gains, interest, and dividends to just 4% by obtaining a tax decree from the Puerto Rico Department of Economic Development and Commerce (DEDC) on or after January 1, 2026.³

The phrase “Puerto Rico-sourced” is key since Puerto Rico residents are still liable for US taxes on income derived from mainland sources and those outside the United States. For example, interest and dividends from a U.S. corporation based on the mainland will continue to be subject to U.S. federal income taxes, even if the taxpayer becomes a bona fide resident of Puerto Rico. In contrast, capital gains from the sale of intangible personal property, such as stocks, will only be subject to U.S. federal taxes on the portion of appreciation that occurred before the taxpayer established bona fide residency in Puerto Rico.⁴ Act 60 clarifies that “Puerto Rico-sourced” capital gains are limited to the portion of appreciation that occurred while the taxpayer was a bona fide resident of Puerto Rico.⁵

Businesses and individuals providing services in certain industries may also take advantage of Act 60. Those involved in eligible export services—such as research and development, consulting, professional services, or investment banking and other financial services—may qualify for a 4% income tax rate on their net income.⁶ What’s more, distributions from the earnings and profits of these businesses may be treated as dividends sourced from Puerto Rico, also taxed at 4% (*Display*).⁷

| Income Taxed by the United States | Income Taxed by Puerto Rico* |
|--|---|
| <ul style="list-style-type: none">Dividend income from non-Puerto Rico based corporations (up to 37%)[†]Interest income paid by non-Puerto Rico based payors (up to 37%)[†]Capital gains realized on appreciation prior to becoming bona fide resident of Puerto Rico (20% long term, up to 37% short term)[†] | <ul style="list-style-type: none">Dividend income from Puerto Rico corporations (4%)Interest income paid by Puerto Rico payors (4%)Gains appreciated during taxpayer’s residence in Puerto Rico (4%)Compensation for certain services (4%) |

*These rates assume that the taxpayer qualifies for Act 60, as discussed below.

[†]This income may also be subject to the 3.8% net investment income tax.

A Private Equity Fund Manager Relocates

Take Bill, a founding partner in a private equity firm with \$1 billion of assets under management. Bill holds a 15% stake in the firm and currently resides in Miami, Florida—though he’s contemplating a move to Puerto Rico in 2026. He typically earns \$2.4 million per year in management-fee income along with \$6 million in carried interest that qualifies for capital gains treatment. Besides the income he derives from operating the fund, Bill maintains a \$10 million personal investment portfolio consisting of public and private securities. Once he is up and running in Puerto Rico, he’d like to structure his new funds in a tax-efficient manner.

After relocating, Bill may restructure his advisory and management services business to benefit from the 4% corporate tax rate by clearly identifying Puerto Rico as the point of origin for performance. Since his management fee income stems from services performed, it may be eligible for the 4% tax rate as well. However, his existing carried interest valued at \$18 million will remain subject to 23.8% US federal capital gains tax when paid out over the next three years. Bill hopes to begin receiving similar payouts from his carried interest in the new Puerto Rico entity in three years. These payouts may benefit from the Puerto Rico tax rate of 4%, too.

In addition, capital gains on any post-relocation appreciation on Bill’s \$10 million personal investment portfolio will be excluded from US federal taxation under IRC § 933, making them subject solely to Puerto Rico’s 4% tax rate.

Assuming annual expenditures of \$750,000, our modeling shows that Bill’s move to Puerto Rico could enhance his annual after-tax income by 25%, saving him up to \$13.8 million in taxes over 10 years (*Display*). Bill’s savings would be even greater if he had originally lived in a state with a high income tax rate, like New York or California.

While Act 60 offers meaningful tax benefits, it is worth noting that these apply solely to income tax. In other words, US citizen residents in Puerto Rico are still subject to federal estate and gift taxes on their worldwide assets.

Eligibility and Compliance Requirements

Investors interested in this incentive program must first ensure their eligibility as not everybody with an address in Puerto Rico qualifies for Act 60 treatment.

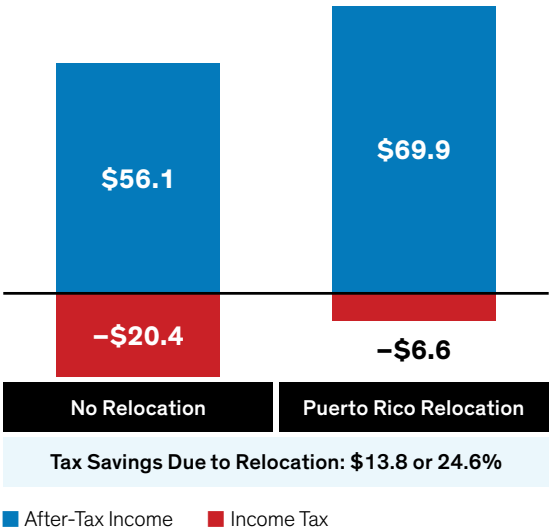
Decree Requirements

If a taxpayer was a Puerto Rico resident between January 17, 2006, and January 17, 2012—or becomes one after December 31, 2035—they are ineligible.¹²

| Tax Impact Analysis | | | |
|-------------------------------------|---|-----------------------------|---------------------------------------|
| Pre-Relocation Structure | Management Entity: A US-based LLC taxed as a partnership, with staff and operations located in Florida. | | |
| Post-Relocation Structure | Puerto Rico-based investment advisory company qualifying under Act 60 as an eligible export services business taxed at a 4% corporate rate on Puerto Rico-source income. ⁸ | | |
| Income Stream | US Federal Tax (Pre-Move) | Puerto Rico Tax (Post-Move) | US Federal Tax (Post-Move) |
| Management Fees (\$2.4M) | 37.0% | 4% | Excluded under IRC § 933 ⁹ |
| Carried Interest (\$6M) | 23.8% | 4% (post-move only) | Excluded if PR-source ¹⁰ |
| Portfolio Capital Gains | 23.8% | 4% (post-move only) | Excluded if PR-source ¹¹ |
| Portfolio Income (Non-PR Source) | 40.8% | 0.0% | 40.8% |
| Qualified Dividends (Non-PR Source) | 23.8% | 0.0% | 23.8% |

CUMULATIVE NET INCOME AND TAX COST OVER 10 YEARS

USD Millions (Nominal)



For illustrative purposes only. Bernstein is not a legal, tax, estate, or insurance advisor. Investors should consult these professionals as appropriate before making any decisions. Tax law is subject to change. There is no guarantee that any estimates or forecasts will be realized.

Bona Fide Residence

To qualify for Act 60 treatment, a taxpayer must be a “bona fide resident” of Puerto Rico who satisfies the presence, tax home, and closer connections tests provided by the Treasury Regulations.¹³

There are five different ways to satisfy the presence test, with varying degrees of complexity.¹⁴ The simplest way is to be physically in Puerto Rico for at least 183 days during the taxable year.¹⁵ There are alternative day-count tests as well.¹⁶

In addition, a taxpayer must not have a “tax home,” or principal place of business, outside Puerto Rico for any part of the taxable year.^{17, 18} Note that a tax home may differ from a place of residence. While this requirement applies to the entire taxable year, special rules govern the year of relocation.¹⁹ For instance, if Bill moves his tax home from Florida to Puerto Rico in a given year, he may not fulfill this requirement until the following year.

Finally, a taxpayer must show a “closer connection” to Puerto Rico than to the continental United States.²⁰ This is a facts-and-circumstances test, which includes, but is not limited to, factors like:

- the location of the taxpayer’s permanent home and family;
- personal belongings, including car, furniture, clothing, and jewelry;
- social, political, cultural, and religious affiliations;
- driver’s license and voter ID card and
- charitable organizations to which they contribute.

Investment Requirements

In addition to the bona fide residence test, a taxpayer must fulfill certain investment requirements. First, the taxpayer must contribute \$10,000 per year to a nonprofit organization operating in Puerto Rico.²¹ At least \$5,000 of that donation must be to an organization directed toward eradicating child poverty.²²

Within two years of receiving their decree, the taxpayer—either by themselves or with a spouse—must also purchase property that will serve as their principal residence in Puerto Rico.²³

Filing Requirements

US resident taxpayers who are bona fide residents of Puerto Rico should review the filing requirements for both the Internal Revenue Service and the Department of the Treasury in Puerto Rico. Generally, US taxpayers living in Puerto Rico for the entire year who meet the residency requirements will file only a Puerto Rico tax return (Form 482). This filing is typically due on April 15 of the following year, with extensions available. In addition, taxpayers taking advantage of Act 60 must file certain annual reports.²⁴ The annual reports, which carry a filing fee of \$5,000, must include receipts for their \$10,000 nonprofit contribution.

Finally, once the sale closes, taxpayers must submit proof of their purchase of a primary residence in Puerto Rico. In each subsequent annual report, the taxpayer must attest that they maintain exclusive ownership of the principal residence, either solely or jointly with their spouse.



Seek Professional Guidance

Puerto Rico's Act 60 presents a compelling opportunity for investors seeking to reduce their tax burden through strategic relocation. But it's not for everyone. Investors must ensure their eligibility for the incentive program, carefully plan a move to Puerto Rico—while potentially severing ties with the continental United States—and stay abreast of investment and filing requirements. Noncompliance or superficial relocation efforts can result in disqualification, which carries significant financial repercussions. Professional guidance is essential to navigate the legal, tax, and operational intricacies of Act 60, maximize its benefits, and avoid costly pitfalls.

¹ Act 60 Statement of Motives.

² IRC § 933(1).

³ Act 60 Sections 2022.01, 2022.02; House Bill 505. H.R., 1st Regular Session of the 20th Legislative Assembly (2025).

⁴ IRC § 865. Dividends and interest are generally sourced according to the payer's residence (see IRC §§ 861, 862).

⁵ See Act 60 § 2022.02.

⁶ Act 60 §§ 2011.02, 2031.01, 2032.01.

⁷ Act 60 § 2032.01(d).

⁸ Puerto Rico Incentives Code (Act 60-2019), Chapter 3 – Export Services.

⁹ IRC § 933.

¹⁰ Id.

¹¹ Id.

¹² Act 60 § 1020.02(a)(4).

¹³ Treasury Regulations § 1.937-1(b).

¹⁴ Treasury Regulations § 1.937-1(c).

¹⁵ Id.

¹⁶ Id.

¹⁷ Treasury Regulations § 1.937-1(d).

¹⁸ IRC § 911(d)(3).

¹⁹ Treasury Regulations § 1.937-1(f).

²⁰ Treasury Regulations § 1.937-1(e).

²¹ Act 60 § 6020.10(b).

²² Id.

²³ Act 60 § 6020.10(c).

²⁴ Act 60 § 6020.10.

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