



## Puerto Rico's Best-Kept Tax Secret: What Act 60 Is, How It Worked, and How It Just Changed

By Yabriami González Feliciano

Thousands of Americans have quietly relocated to Puerto Rico over the past decade, not just for the weather, but for one of the most powerful tax incentives available to U.S. citizens anywhere in the world. That program just went through its most significant overhaul since it was created. Here is what it is, where it came from, and what it looks like today.

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### What Is Act 60?

Act 60, officially the *Puerto Rico Incentives Code*, enacted July 1, 2019, is a comprehensive tax incentive program designed to attract individuals, entrepreneurs, and businesses to Puerto Rico by offering tax benefits that exist nowhere else in the United States.

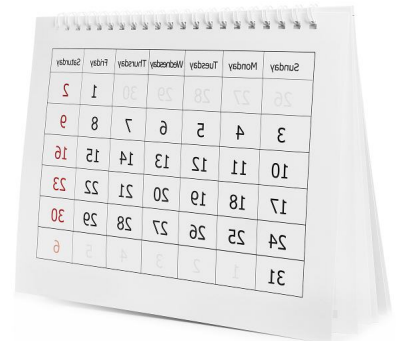
Its foundation rests on a legal quirk unique to Puerto Rico's status as a U.S. territory: under federal law, bona fide residents of Puerto Rico are generally exempt from U.S. federal income tax on income sourced from Puerto Rico. That means a U.S. citizen who genuinely moves to the island and earns investment income there can legally owe nothing to the IRS on that income, while keeping their U.S. citizenship and passport.

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Act 60 builds on top of that federal exemption by also eliminating Puerto Rico's own taxes on that same income. The result, for qualifying individuals, is a total tax rate that can be as low as 0% on capital gains, interest, and dividends, and a flat 4% corporate tax rate for qualifying businesses that export services from the island.

### Where It Started: Act 22 of 2012

To understand Act 60, you have to go back to its predecessor.



In January 2012, with Puerto Rico in the grip of a severe economic crisis, the Puerto Rico Legislature passed Act No. 22, formally titled the "*Act to Promote the Relocation of Individual Investors to Puerto Rico*." Its Statement of Purpose was direct: Puerto Rico needed to attract foreign capital, and it was willing to offer full tax exemption on investment income to individuals willing to genuinely relocate to the island.

Under Act 22, a qualifying Resident Individual Investor received:

- **100% exemption** from Puerto Rico income tax on interest and dividends earned after becoming a resident, through December 31, 2035
- **100% exemption** on capital gains from appreciation that occurred after establishing Puerto Rico residency, if recognized before January 1, 2036
- A special **5% rate** (in lieu of all other taxes) on gains from appreciation that built up before the move to Puerto Rico, if recognized more than 10 years after establishing residency

To qualify, an investor had to become a bona fide Puerto Rico resident, meaning genuine domicile on the island, with 183 days of physical presence per year establishing a presumption of residency, and not have been a Puerto Rico resident during the six-year period before Act 22 took effect. Decrees were issued as legal contracts between the investor and the Commonwealth of Puerto Rico, valid through December 31, 2035.

The program worked. Investors relocated. Capital flowed in. Real estate markets moved. And Puerto Rico gained a new class of high-income residents.

### The 2019 Consolidation: Act 60 Is Born

By 2019, Puerto Rico had accumulated dozens of overlapping incentive laws, Act 20 for export services businesses, Act 22 for individual investors, and many others. On July 1, 2019, the Puerto Rico Legislature consolidated them all into a single unified statute: Act No. 60-2019, the Puerto Rico Incentives Code.

For individual investors, the core deal carried over from Act 22, 0% Puerto Rico tax on qualifying investment income, but with meaningful new requirements:

- The **annual charitable donation requirement** was introduced at \$10,000 per year to qualifying Puerto Rico nonprofits (Act 22, as amended in 2017, had required \$5,000; Act 60 doubled it), with the first \$5,000 directed to organizations approved by the government's legislative fund commission
- **Residential property purchase** in Puerto Rico became formally required within two years of obtaining a decree
- A **\$5,000 annual compliance filing fee** was established (raised from \$300, a change that itself drew legal challenges from investors who argued it violated the contractual nature of their decrees)
- **Annual reports** filed with the Office of Incentives became mandatory, documenting residency, income sources, and charitable contributions

Existing Act 22 decree holders were brought into the Act 60 framework while retaining their original 0% tax benefits through 2035.

### What Just Changed: Act No. 38 of March 10, 2026

On March 10, 2026, Governor Jenniffer González-Colón

signed **Act No. 38-2026** into law, amending several provisions of the Puerto Rico Incentives Code. The changes are significant, but they draw a sharp line between existing participants and new applicants.

### The Two-Track System

Act 38-2026 creates two distinct regimes based entirely on when an application is filed:

**Track 1: Applications filed on or before December 31, 2026:** All applications received by the OIN no later than 11:59 p.m. on December 31, 2026, per the Incentives Portal timestamp, are processed under the original rules. That means:

- 0% fixed tax rate on net capital gains, interest, and dividends under Sections 2022.01(a) and 2022.02(b) of the Incentives Code
- Decree expiration of December 31, 2035
- Prior property acquisition rules apply (property may be held through an eligible legal entity organized in Puerto Rico)

### Track 2: Applications filed on or after January 1, 2027:

- 4% fixed tax rate on net capital gains, interest, and dividends under Sections 2022.01(b) and 2022.02(d)
- Decree expiration of December 31, 2055
- Stricter property and residency documentation requirements apply

### The Extension to 2055

The program, previously set to expire in 2035, has been extended by 20 years, through **December 31, 2055**. This is

the single most structurally significant change for long-term planning. Investors, families, and businesses can now plan around Act 60 benefits across generational timescales rather than a 10-year window.

Existing decree holders who want to access the 2055 extension may request a modification of their decree, but doing so triggers the 4% rate as of January 1 of the year the extension request is filed. That trade-off requires careful analysis.

### New Prior Residency Requirements

The prior residency rule has been updated and it differs depending on when you apply:

- **Applicants filing before January 1, 2027**, must not have been a Puerto Rico resident between January 17, 2006, and January 17, 2012, the original Act 22 lookback window
- **Applicants filing after December 31, 2026**, must not have been a Puerto Rico resident for the 6-year period immediately preceding their date of relocation, a rolling lookback rather than a fixed historical window

### Stricter Property Documentation

For applications filed on or after January 1, 2027, compliance with the residential property requirement must now be demonstrated through evidence of full title and domain, duly registered (or pending registration) with the Puerto Rico Property Registry, held in the name of the individual, jointly with a spouse, or through a qualifying grantor trust under Section 2022.07. The prior option of holding property through a broader Puerto Rico legal entity is no longer available for new applicants.



### Criminal Record Review

The OIN's Bulletin also formally confirmed that applicants must submit a criminal record report from their last place of residence, and that convictions for felonies involving wire fraud, bank fraud, securities fraud, tax fraud, mail fraud, or similar financial crimes, or a pattern of criminal behavior, even across misdemeanors, are grounds for denial of a decree application.

### What Hasn't Changed

Even with these reforms, the fundamentals of Act 60 remain intact:

- **Bona fide Puerto Rico residency is still required.** That means 183+ days per year on the island, a Puerto Rico tax home, and closer connections to Puerto Rico than to any other jurisdiction. The Presence Test, Tax Home Test, and Closer Connection Test must all be met.
- **The federal exemption under IRC §933 still applies.** Bona fide residents remain exempt from U.S. federal income tax on Puerto Rico-sourced income.
- **Businesses exporting services** still qualify for the 4% corporate tax rate, 100% dividend exemption, and property and municipal tax reductions.
- **Existing decree holders are protected.** Decrees are contracts between investors and the Commonwealth, and grandfathered benefits remain in force.

### The Bottom Line

Act 60 did not end. It evolved. The 0% era for new applicants is closing, replaced by a 4% rate that, by any global comparison, remains extraordinary for U.S. citizens. Federal capital gains taxes alone can reach 23.8% for high earners on the mainland, on top of state taxes. Puerto Rico at 4%, with no federal tax on Puerto Rico-sourced income, is still in a different category entirely.

What changed most is the framework around accountability: tighter documentation, stricter residency verification, more community investment through higher charitable contributions, and a program that now extends far enough into the future to support serious long-term planning.

For anyone hearing about Act 60 for the first time or wondering whether the recent changes affect an existing decree, the rules are more detailed and the stakes of getting them wrong are higher than ever. If you have questions about Act 60, please contact Frost Law at [\(410\) 497-5947](tel:410-497-5947) or [fill out our contact form](#).

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