

April 1, 2011 [www.mcvpr.com](http://www.mcvpr.com)**TAX ALERT*****ECONOMIC INCENTIVES FOR THE DEVELOPMENT OF THE FILM INDUSTRY ACT***

Act Number 27 of March 4, 2011 (“Act 27”), known as the “Economic Incentives for the Development of the Film Industry Act”. Act 27 repeals the Motion Picture Industry, Arts and Sciences Development of Puerto Rico Act and introduces novel concept such as Film Development Zones (“FDZs”) and contractual grants incentives.

FDZ's will consist of real property dedicated to the development, construction and operation of large-scale studios and related developments and are to be designated by the Secretary of the Department of Economic Development and Commerce (“Secretary”) throughout the Island. Upon such designation, the Secretary, together with the President of the Puerto Rico Planning Board, shall adopt a zoning regulation which will control the development, zoning and use of such real property allowing for enhanced flexibility to developers of project therein.

The concept of a “grant” commonly used in industrial incentives legislation is incorporated into Act 27. Persons engaged in eligible Film Projects and Infrastructure Projects, as well as Studio and Large-Scale Studio Operators may file an application for a grant with the Puerto Rico Film Commission. Such grant which will set forth the available tax credits and tax treatment applicable to the grantee. Film Projects are eligible for tax credits amounting to 40% of Puerto Rico Production Expenses, except payments to Nonresident Talent, for which a 20% credit is available. Infrastructure Projects qualify for tax credits amounting to 25% of the eligible project costs.

Grantees will be generally subject to a fixed income tax rate of 4% (6% to 10% in the case of Studio Operators) and will enjoy 90% exemption on real and personal property taxes, 100% exemption from municipal license and excise taxes, as well as any other municipal taxes on income and 100% excise tax exemption in connection with their operations covered by a grant.

The Puerto Rico Film Commission has already published an unofficial translation of the legislation, protocols for filing applications for incentives under Act 27 and an application form. For updates on this matter, you may contact any of the attorneys listed below, all members of our Tax Practice Group.

If you have any questions or comments, or wish additional information regarding these matters, please contact any of the attorneys listed below, all members of our [Tax Practice Group](#):

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